EUROPE'S BUSINESS NEWSPAPER

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Tuesday October 23 1990

Φ D 8523A

ROMANIA
Bad old ways spoil new-style politics
Page 3

World News

Saddam to release some US and UK hostages

President Saddam Hussein of Iraq agreed to release several male US and UK hostages and raised the prospect of freeing all French nationals being used as human shields. Page 22

Big Bhutto welcome
Despite being denied access to Lahore's main rally sites, sacked Pakistani prime minister Benazir Bhutto made a triumphal entry into Lahore. At least 100,000 people turned out to welcome her. Photograph, Page 4

EC lifts sanctions
European Community foreign ministers agreed to end sanctions on China and Iran, but the UK blocked moves to lift Syrian restrictions. Page 22

Anger at Bush veto
President George Bush, in a move which will anger black groups and women, plans to veto a civil rights bill making it easier for workers to win discrimination cases. Page 6

Moro daughter quits
The daughter of Italy's murdered ex-premier Aldo Moro said she was resigning from the ruling Christian Democrats in protest at its refusal to save her father while he was held hostage by terrorists.

Surrogate loses
A judge at Santa Ana, California, ruled that a surrogate mother, Anne Johnson, 29, has no parental rights to a baby she carried for an infertile couple. She had been paid $10,000.

Philippines murder
Four gunmen murdered moderate Philippine labour leader Oscar Lazaro, 53, and communist hit-squads said they would not allow interference with tomorrow's general strike.

Egypt opens tombs
Egypt opened the tombs of nobles, high priests and ancient royalty, allowing a glimpse into their past for the first time since archaeologists unearthed them a century ago.

US pays its dues
US has paid $40m toward its delinquent UN dues of over $500m, giving the world body enough cash to keep operating through November, UN officials announced.

Links broken
Kenya said it was breaking off diplomatic relations with Norway following a bitter row over the activities of Kenyan dissidents. Page 4

Shamir survives
Israeli prime minister Yitzhak Shamir barely defeated a no-confidence motion in parliament over his policies since forming a right wing government four months ago. The vote was 53 to 51.

Princess banned
Princess Anne, daughter of England's Queen Elizabeth, was fined a total of £150 and banned from driving for one month by magistrates in Gloucestershire after she admitted two speeding offences.

Mozambique change
Mozambique parliament unanimously approved a clause in the new constitution recognising specifically for the first time the role of market forces in the economy. Page 4

Japan upsets China
Taiwan and China both denounced Japan for repelling a Taiwanese group from the Diaoyutai islands over which all three claim sovereignty. Page 4

Sanity test
An Indian district judge threw out a petition to compel Prime Minister V.P. Singh to undergo a mental examination under the Lunacy Act. The lawyer bringing the case sought to call the premier's wife as witness. Temple crisis, Page 4

Business Summary

Philips and Du Pont to end compact disc venture

Philips of the Netherlands and Du Pont of the US are to unravel their four-year-old joint venture for the manufacture of compact discs and professional discs. Philips will acquire the consumer side of the business and both partners will dispose of the venture's professional disc operations.

Philips intends to sell parts of the consumer disc operation to PolyGram, its London-based, 80 per cent-owned recorded music subsidiary. Page 23

MARKETS: Lower oil prices did not sustain their appeal, as the more sombre Monday morning mood in New York was anticipated on the continent. In Frankfurt, the DAX index closed 7.58 lower at 1,474.51 after the FAZ eased 0.30 to 634.85 at midsession. In Tokyo, the Nikkei closed at 25,070.86, up 589.37. Back Page, Section II

EUROPEAN economic and monetary union (Emu): speculation over the date for starting was heightened after a meeting of EC foreign ministers in Luxembourg. Page 22

TIME Warner, debt-laden media and entertainment conglomerate that controls Time Magazine and Warner Brothers in Hollywood, unveiled a $91m third quarter loss, against a pro forma loss of $124m last time. Page 25

EUROPEAN Community plans to provide substantial short-term financial aid to the Soviet Union appeared to recede further in Luxembourg. Page 2

LUCAS Industries, UK automotive group, is to invest £150m ($295.5m) over the next five years on manufacturing plant in France, Spain and the UK for diesel engine injection systems. Page 23

HUNGARIAN officials have moved to quell growing speculation that the country will face a financial crisis when it is forced to turn to the world market for oil from next January. Page 3

URUGUAY Round talks on the liberalisation of the $600bn-a-year world trade in services has moved into a decisive phase. Page 8

UNION Carbide, US chemicals group, suffered a 35 per cent drop in third quarter net income on increasing oil prices in the wake of the Gulf crisis. Page 24

ALGERIAN authorities are to press ahead with a programme under which they will provide collateral to encourage international banks to grant it new loans. Page 4

INCO, world's leading nickel producer, was hit by lower nickel prices which pushed earnings down by almost a quarter in the three months to September 30. Page 24

SOUTH Korea's economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the governor of its central bank forecast. Page 4

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts. Page 6

COOKSON, heavily indebted UK industrial materials group, has agreed to sell its 50 per cent stake in Tioxide, the pigments manufacturer, to ICI, its partner in the joint venture, for £160m ($315.2m). Page 23

ARCO, Los Angeles-based oil and gas company, reported essentially unchanged third quarter net earnings of $382m. Page 25

EGYPTIAN authorities have approved a $560m takeover of the ailing el Eayan investment company whose owners were accused of defrauding its investors of $716m. Page 26

Economics minister leads attack by Bonn government on group's autumn report

German economic research institutes 'too pessimistic'

By David Goodhart in Bonn

THE German government yesterday took the unusual step of criticising the autumn report of the country's five leading economic research institutes as "too pessimistic".

The attack was led by Mr Helmut Haussmann, economics minister, who predicts all-German economic growth next year of 2.5 per cent to 3 per cent compared with the institutes' more pessimistic forecast of 1.5 per cent.

The trade unions and the opposition Social Democrats immediately tried to use the pessimistic tone of the report and several specific criticisms of government policy to embarrass the centre-right coalition. But the government's faith in a faster turnaround in eastern Germany, a central part of its electoral appeal in East Germany, was backed by the Federation of German Industry.

In their report published yesterday, the institutes also predict that inflation next year will rise to 4 per cent from 2.5 per cent this year. The number of unemployed is likely to reach about 3.4m, or 10 per cent of the workforce, despite the creation of 500,000 new jobs in the western part of the country.

The jobless figure in east Germany will rise to 1.4m, in addition to which 1.75m people will be on short-time working.

The cash needed to pay for this east German unemployment will rise from about DM10bn ($6.60bn) this year to DM30bn next year, the five institutes say. The overall integration of East Germany, excluding the budget of the Treuhand privatisation agency, will require DM70bn in extra borrowing this year and DM90bn next year. The overall public sector deficit will be DM100bn this year and at least DM120bn next year.

Dividing the country along its former lines, the institutes are predicting a fall in West German GNP growth from this year's 4 per cent to 2.5 per cent and an absolute fall in East German GNP of 16 per cent this year and a further 10 per cent next year. They say the low point of eastern Germany's economy has not yet been reached, but the turnaround should begin next summer.

The east German economy is not yet fulfilling its promise as the bridge to the former East bloc and has lost most of its east European orders as well as 50 per cent of its domestic consumer goods market.

A separate report from the Bundesbank says that eastern Germany's industrial production fell 51 per cent in August compared with last year.

The institutes admit that they underestimated the costs of German unity and overestimated the willingness of private capital to invest in eastern Germany. They now predict that only DM5bn of private capital will be invested this year, rising to DM15bn, or 20 per cent of total investment, next year.

They reject tax increases as a means of paying for unity but say that savings of between DM20bn and DM30bn could be made swiftly by cutting western Germany's regional subsidies and defence spending.

The institutes are implicitly critical of rapid wage increases in eastern Germany, which have damaged its attractiveness as an investment site, and also of the Bonn government's recent decision to raise pensions by 15 per cent.

The government's instructions to the Treuhand are also criticised for laying too much stress on restructuring enterprises before privatising them.
Continued on Page 22


Economic minister Helmut Haussmann: attacking pessimists

US budget negotiators launch fresh attempt to end impasse

By Peter Riddell, US Editor, in Washington

DEMOCRAT and Republican congressional negotiators yesterday resumed their attempt to end the US budget crisis with both sides attempting to lower the temperature as Mr Richard Darman, the budget director, returned to the talks.

Late on Sunday, the budget talks faltered after Mr John Sununu, White House chief of staff, angrily claimed that talks had broken down over taxing the wealthy. However, Senator George Mitchell, the Democrat majority leader, said yesterday that the breakdown was "a tempest in a teapot".

Most of the outstanding issues in the $500bn five-year deficit reduction plan have been agreed. The main disagreement causing Sunday's stalemate is over the means, not the principle, of taxing the rich and over savings on Medicare health provision for the elderly.

The White House believes it has already made large concessions in accepting a levelling out of the bubble in the US tax code so that all those earning above $78,000 a year would pay a marginal income tax rate of 31 per cent, instead of present rates of 33 and 28 per cent.

It is no longer insisting on a cut in capital gains tax and has offered to accept a modified version of a Senate plan which would limit tax deductions for those earning more than $100,000 a year.

The Democrats, who want to ensure that the wealthy face the largest tax increases, have proposed either a top tax rate of 32 per cent or 31 per cent plus an additional 7.5 per cent surtax on those earning more than $1m a year.

They want to use the money to limit cutbacks in Medicare and the size of the increase in federal petrol/gasoline tax (now likely to be five or six cents a gallon rather than the 9.5 cents originally proposed).

The problem with limiting tax deductions is that the heavily Democrat delegations from states with high local taxes - such as California and New York - object if their voters would be unable to deduct all of their state taxes.

The votes of House Democrats from these states are needed if any plan is to pass. Because of the opposition of a sizeable group of House Republicans to any likely
Continued on Page 22
Analysis, Page 6

Saudi hints at need for Kuwaiti land concessions

By Victor Mallet in Dhahran

PRINCE Sultan bin Abdul-Aziz, the Saudi Arabian defence minister and brother of King Fahd, has hinted that Kuwait ought to consider making territorial concessions to Iraq if Baghdad withdraws troops from Kuwaiti territory.

The conciliatory tone of his remarks, made to Arab journalists in Riyadh on Sunday, has alarmed the Kuwaiti government in exile.

It has also surprised the US and other western countries. In Washington, Prince Bandar, the Saudi ambassador was called in to explain the defence minister's statement. The White House said Prince Bandar, had assured the US that there was no change in Saudi policy demanding the withdrawal of Iraqi forces from Kuwait.

Since Iraq's invasion of Kuwait, Saudi Arabia has been among the most hawkish of Arab governments in demanding an unconditional withdrawal. However, of all the Saudi royal family, Prince Sultan has been the most anxious to avoid war.

"The Arab countries are ready to give Iraq all its rights," Prince Sultan was quoted as saying. "Any Arab who has a claim on his brother should take it by understanding, not force."

In September he surprised Saudi Arabia's allies by saying the kingdom would not be used as a launching pad for an attack on Iraqi forces. Referring on Sunday to Iraq's claim to Kuwaiti islands at the head of the Gulf, he said Saudi Arabia saw "no harm in any Arab country giving its Arab sisterland a site or a position on the sea."

He said: The Arab countries are ready to give Iraq all its rights."

Iraq invaded Kuwait on August 2 and annexed the whole country but diplomats attempting to resolve the crisis suggest that Iraq may be satisfied with the islands of Bubiyan and Warba and a part of northern Kuwait that comprise the Rumeilah oilfields.

Saudi officials insisted last night the country's official position, demanding a complete Iraqi withdrawal, had not changed and Prince Sultan was quoted as saying on Sunday that anything other than an unconditional withdrawal was unacceptable.

The defence minister's remarks may be designed to persuade Iraq to withdraw without any more bloodshed as Saudi Arabia's allies continue their military build-up on the Saudi frontier with Kuwat.

Efforts to push Iraq out of Kuwait by diplomatic means and to reinforce the determination of Saudi Arabia's allies with a credible US-led military threat. have continued in recent days.

Yesterday, President Hosni Mubarak of Egypt, arrived in northern Saudi Arabia to review his troops. He is due to meet King Fahd in Jeddah. Also in the kingdom is General Colin Powell, chairman of the US Joint Chiefs of Staff.

Prince Sultan, looking ahead to a post-crisis Gulf, also made a conciliatory gesture towards Iran. "We were all pleased with Iraq's withdrawal from Iranian territory and giving the fraternal Moslem county what it believes to be its right," he was quoted as saying.

Saudi Arabia and Kuwait supported Iraq following its invasion of Iran in 1980.

World crude oil prices fall steeply

By Steven Butler in London

WORLD crude oil prices fell steeply yesterday – to below $30 a barrel for the first time in six weeks – as traders concluded that prospects for a peaceful resolution to the Gulf crisis appear to have improved.

Airlines and chemicals companies, whose businesses have been hit badly by rising fuel and feedstock costs, stand to benefit most. Jet fuel, recently quoted at more than $500 a tonne, was yesterday trading at about $385 a tonne, down $40 on the day. Naptha, a chemical feedstock, was off $45 a tonne at $270.

The markets fell in the morning when Prince Sultan Ibn Abdul Aziz, the Saudi defence minister, was reported to have opened the door to negotiations over Iraq's territorial demands after an eventual withdrawal from Kuwait.

The efforts of Mr Edward Heath, the former British prime minister, to gain the release of hostages was also interpreted as a hopeful sign.

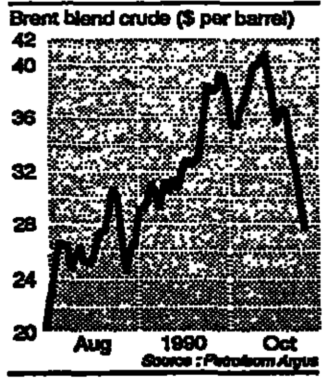
Traders said that the dissipation of "war psychology" lay behind yesterday's heavy declines, but added that crude oil was in abundant supply.

"We've been concerned for some weeks that the underlying fundamentals of crude were very soft," said the head of one large trading operation. Dislocations in the market – when buyers found themselves without Kuwaiti and Iraqi supplies – had been worked through the system.

North Sea Brent crude oil for December delivery closed down $5.50 at $26.65 a barrel in European trading. At the New York Mercantile Exchange, November futures for the West Texas Intermediate were off $4.29 a barrel at $29.50 at midday. The Egyptian government cut the benchmark Suez blend by $6 to $26 a barrel.
Commodities, Page 33

Oil price

Brent blend crude ($ per barrel)



Source: Petroleum Argus

Banco di Roma takeover set to create country's biggest bank

By Haig Simonian in Milan

ITALY'S second biggest savings bank, the Cassa di Risparmio di Roma, is negotiating to take over Banco di Roma, one of three state-owned "banks of national interest", in a deal which would create the country's biggest bank.

Talks have reached an advanced stage. The transaction, which may be announced by the end of this month, will represent the biggest leap to date in the rationalisation of the Italian banking sector.

It would also mark a step in the partial privatisation of Italy's banking sector. IRI, the state holding company which currently owns 81 per cent of Banco di Roma, is expected only to take a minority stake in the new venture, although the majority of its shares would still be publicly-owned.

The merged banks will create a powerful force in central Italy, where they are likely to hold immense influence over the local deposit market. Cassa di Risparmio di Roma is already planning to buy out the remaining 49 per cent stake in Banco di Santo Spirito, another regional bank in central Italy, which it does not already own.

Observers say support for the Rome Cassa, which will subsequently trade under the Banca di Santo Spirito name, to take over Banco di Roma, is running very high. Initial political indicatiions are believed to be favourable, while the Bank of Italy has given strong support. However, reaction at Banco di Roma, the weakest of the three "banks of national interest", may be less warm.

As matters stand, Cassa di Risparmio di Roma is Italy's 13th biggest bank, with $25.4bn in total assets, while Banco di Santo Spirito ranks 17th, with assets of $20.6bn. Buying Banco di Roma would put the combined institutions just ahead of Istituto Bancario San Paolo di Torino, which is currently Italy's biggest bank. It is not yet clear what effect the transaction would have on Banco Hispano Americano and Commerzbank, the Spanish and German partner banks of Banco di Roma, which have long been nursing ambitions of buying into its capital.

A three-way link between the Rome Cassa, Santo Spirito and Banco di Roma has been criticised on the grounds that the resulting institution will have too dominant a position in central Italy and inadequate representation elsewhere.

However, supporters of the deal argue that a "super-regional" bank will be able to maximise profitability though its sway over the local deposit market, while the inclusion of Banco di Roma will add an element of international coverage which the two other banks lack.

In any event, the new bank, which will probably not be created until well into next year at the earliest, will require a hefty rationalisation period to avoid flagrant duplication of branches.

However, the new bank is not expected to allow much room for encroachment by outsiders. It may even maintain some element of duplication by keeping alive both names and possibly trading under two distinct brands.

CONTENTS

Italy's president tries to rise above the party fray


Italian president Francesco Cossiga visits London today. The Christian Democrat politician has acquired a greater public role and authority by trying to act as a non-partisan guardian of the country's constitution. Page 3

MARKETS

STERLING
New York close
$1.9425 (1.9595)
London:
$1.9490 (1.9595)
DM2.9550 (2.945)
FFr9.8900 (9.865)
SFr2.4850 (2.4875)
Y245.50 (246.75)
£ Index 94.4 (94.5)

GOLD
New York: Comex Dec
$372.4 (378.8)
London:
$365.25 (372.5)

N SEA OIL (Argus)
Brent 15-day
$26.65 (32.15)

Chief price changes yesterday: Page 23

DOLLAR
New York close
DM1.51805 (1.5015)
FFr5.0815 (5.0275)
SFr1.28365 (1.267)
Y125.975 (125.95)
London:
DM1.5160 (1.5025)
FFr5.0750 (5.035)
SFr1.2805 (1.2695)
Y126.00 (125.9)
$ Index 60.4 (60.2)
Tokyo close: Y125.25

US closing rates
Fed Funds 7 [illegible]% (7 [illegible])
3-mo Treasury Bills: yield: 7.45% (7.444)
Long Bond: 99 [illegible] (99 [illegible])
yield: 8.742% (8.75)

STOCK INDICES
FT-SE 100: 2,102 (+13.0)
FT Ordinary: 1,633.6 (+12.1)
FT-A All-Share: 1,015.13 (+0.5%)
New York close
DJ Ind. Av. 2,516.09 (−4.70)
S&P Comp 314.76 (+2.28)
Tokyo: Nikkei 25,070.86 (+589.37)

LONDON MONEY
3-month interbank: closing 13 [illegible]% (13 [illegible])
Liffe long gilt future: Dec 84 [illegible] (83 [illegible])

EUROPEAN NEWS

French nuclear sights still trained on Soviet Union

By Ian Davidson in Paris

MR MICHEL ROCARD, the French prime minister, yesterday named the Soviet Union as a primary reason for France's continued reliance on nuclear deterrence.

In a surprisingly explicit speech to the Institute for National Defence Studies, he called for the development of a European defence policy and for nuclear defence co-operation between France and Britain.

He argued that stability came from the reciprocity of deterrence, and pointed out that "the USSR remains a considerable military power, especially in nuclear terms".

The possibility of Franco-British co-operation in the nuclear field is likely to be discussed in London today at a regular meeting between the two defence ministers. In particular, the British government is considering whether to adopt the planned French ASLP long-range air-launched nuclear missile, as a replacement for its ageing gravity nuclear bombs.

The ASLP project is a central element in the choice of the next generation of French strategic nuclear weapons. This is now scheduled to be taken before the end of the year, and will include the elimination of one leg of its strategic nuclear triad.

The choice lies between the development of a new generation of S4 land-based missiles to replace the 18 S3 ballistic silo-launched missiles in southern France, or the go-ahead for the ASLP 1,200km-range missile, as a replacement for the medium-range ASMP missile.

The third leg of the French nuclear triad, the submarine-launched ballistic missiles, will continue to be improved, with more modern missiles and a new generation of submarines. The maintenance of a triad is ruled out on grounds of cost, so a choice must be made between the other two legs.

In principle the French choice could be influenced by the parallel option being weighed by the British government. The UK is not expected to reach a decision in time to influence the French choice, however.

The ASLP (*air-sol longue portée*) air-launched missile has been under serious discussion between France and Britain as a possible candidate for joint development since the middle of last year.

A British decision in favour of the ASLP would be a major plus for the project. But French officials assert that the French choice will not be dependent on a British decision, and they evidently do not expect that the British government will make up its mind in time to weigh in the French decision.

EC downgrades Moscow aid

By Tim Dickson

PROSPECTS of the European Community providing substantial short-term financial aid to the Soviet Union appeared to recede further in Luxembourg yesterday.

EC foreign ministers held a brief discussion on the issue but it now seems likely that no radical decisions will be taken at next week's special EC summit in Rome.

Help for the Soviet Union was at one stage to have been the main item on the agenda, following instructions to the European Commission by heads of government at the Dublin summit in June.

But there seems to be a growing consensus that the Soviet Union is too politically volatile and too poorly served by reliable statistics to qualify for a large scale bail-out at the moment.

There was talk yesterday of a more focused programme, with support for specific projects, including infrastructure, involving the private sector as far as possible.

The foreign ministers, however, did achieve one tangible result yesterday by finally signing a trade and economic co-operation agreement with Romania. This had been prepared in time for the EC general affairs council in June but was postponed in the light of the brutal suppression of political dissent in Bucharest that month.

The EC has decided that the time is now right to go ahead with the accord – which offers trade concessions on Romanian goods – due to the release of those detained in the June disturbances, the readmission of the International Red Cross and the government's wide ranging proposals for economic reform.

Crime prevention in the market poses problems for Soviet police

By Quentin Peel in Moscow

FACED WITH a soaring crime wave, and demoralised security services, the Soviet Union's law and order chiefs are only just beginning to face up to the awesome additional prospect of crime prevention in a market economy.

The problem is that the transition to a market system, finally approved last week by the Supreme Soviet, the national parliament, has far wider implications than simply learning new ways of doing business. It means a rethink of the entire basis of what is glibly called "economic crime" in the Soviet Union.

For years, "speculation" has been a grievous crime in the Soviet system. It means buying something at fixed state prices, and reselling it at a profit. In the market economy, speculation is likely to become normal business practice.

Yesterday the most powerful men in the security services, including Mr Vladimir Kryuchkov, the head of the KGB, the state security committee, and Mr Vadim Bakatin, the interior minister, tried to tackle the issue at a press conference on crime-fighting. The end result was almost total confusion both about what they think they are fighting, and how they are going about it.

Mr Kryuchkov certainly saw matters more simply than his colleagues, blaming the explosion of crime on the streets, and the equally rapid growth of a black market economy, above all on a surge in organised crime. He then went further, and charged that joint ventures, laboriously negotiated between Soviet and western partners to attract foreign investment, were actually milking the economy of "billions of roubles," apparently in criminal ways.

Kryuchkov: naming the guilty parties

"Organised crime has assumed a scale we could never have predicted a couple of years ago," Mr Kryuchkov said, conscious that his own organisation has found a new lease of life, since it was restrained in persecuting political dissidents, in pursuing exactly these sort of criminals.

"These gangs are operating with criminals from other countries. The problem is the appearance of rather stable gangs who have contact with the shadow economy."

Joint ventures seemed to be part of the problem in Mr Kryuchkov's eyes. "We are young businessmen. We lack experience," he said. "Our companies don't have their own intelligence and counter-intelligence.

"But we've got to come to grips with them (joint ventures) because our state suffers great losses. You just cannot imagine how much. I estimate the damage running into billions of roubles."

Yet even Mr Kryuchkov admitted that the problem of how the security services operated in conditions of a market economy was "immensely difficult."

Mr Veniamin Yakovlev, the justice minister, was more specific. Western businessmen regarded "speculation" as normal business practice. "Our criminal code stipulates something as criminal which is perfectly normal in a normal economy," he said.

Moving to a market economy meant that the relevant laws must be repealed. But in the meantime, he declared, anyone guilty of speculation was no better than "a robber," and should be prosecuted with the full force of the law.

Mr Bakatin sought to calm the situation. "Of course crimes are growing, and they may continue to increase for some time. But a market economy provides normal conditions for a normal society. We shouldn't frighten poor people with what it means."

On the other hand, he was equally determined that people with ill-gotten incomes should not profit from the transition to a market. He called for a tough financial inspection service, and mandatory declarations of profits, to stop illegal money laundering through the corrupt Soviet system.

All of which left the audience in some confusion as to who were the criminals, what was a crime, and what the services of law and order intended to do about it.

● Soviet leader Mikhail Gorbachev urged restive miners to support the government as it tried to carry out the transition to a market economy, Reuter adds from Moscow.

Tass news agency said Mr Gorbachev called on Soviet miners "at this crucial time to display goodwill and support government measures to normalise the situation in the country, strengthen the economy to a market system and improve living standards."

Mr Gorbachev made his appeal in a message to miners' representatives in the Ukrainian mining city Donetsk. The miners, many of whom took part in a nationwide strike in July 1989 to demand more money and greater autonomy, will discuss the formation of a national union to protect their interests and the switch to a market economy.

Moscow expects further fall in oil output

THE Soviet Union's declining oil output will show another drop in 1991, Mr Artem Troitsky, deputy chairman of Gosplan, the state planning commission, said yesterday, Reuter reports from Moscow.

Official figures released last week showed production dropped 23.5m tonnes to 423m in the first nine months of this year compared with the same period of 1989. Exports of crude fell 6.3m tonnes.

Mr Troitsky said only massive amounts of new investment in the oil industry could avert continuing production declines. Producers were having difficulties developing new fields because deliveries of equipment were sporadic. Many fields were producing less than anticipated, he said. "We don't think this situation will change in the near future," Mr Troitsky said.

In an attempt to stimulate oil production, the government had decided to pay oil producers hard currency for any output which exceeded planned targets, Mr Troitsky said.

Mayor attacked over Dresden march

The mayor of Dresden was widely condemned yesterday for permitting a neo-Nazi march through the city centre in which about 500 demonstrators shouted racist slogans and made Hitler salutes, Reuter reports from Berlin.

Jewish leaders, wary of resurgent nationalism in the new united Germany, said democratic tolerance had gone too far. Outraged locals in Dresden called the march a scandal.

"This neo-Nazi rally. . . has overstepped the limits of democratic tolerance," the leader of Germany's Jewish community, Mr Heinz Galinski, said in a statement.

The demonstrators marched through Dresden to the Semper opera house on Saturday afternoon, shouting "foreigners out" and "Deutschland ueber alles ("Germany supreme").

The marchers waved imperial German flags and demanded a return to Germany's Nazi-era borders, including large chunks of present-day Poland, Czechoslovakia and the *Soviet Union*.

Madrid under pressure to protect nature reserve

By Peter Bruce in Madrid

PLANS for a $100m tourist development next to Europe's largest nature reserve, the Donana National Park in southern Spain, have suffered a setback following last minute pressure on the local council from Madrid.

Spain's socialist government is believed to have pressured socialist councillors in the town of Almonte not to attend a special council meeting called on Saturday to give planning permission for the project.

Only nine of 17 socialist councillors attended, depriving the council of a majority necessary to approve it.

Madrid is under intense international pressure to save Donana, a 700 sq km dune and marshland on the Guadalquivir estuary in Andalucia.

Ecologists at the EC, which is threatening court action against Madrid, accuse Spain of allowing an existing development - Mata Lascanas - and a 12,000 hectare irrigation project nearby to indiscriminately drain Donana's own subterranean water reserves, which are the lifeblood of the park.

Water levels under the Donana have fallen dramatically in the last five years and successive socialist governments in Andalucia have turned a blind eye to protest in order to protect powerful farming and property interests in the region.

Donana is the half way house to most of the birds which migrate every year between western Europe and Africa. Three years ago pesticides released into the park's water system by neighbouring farmers killed at least 30,000 birds.

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Hungary seeks to calm fears of financial crisis

By Nicholas Denton in Budapest

HUNGARIAN officials have moved to quell growing speculation that the country will face a financial crisis when it is forced to turn to the world market for oil from next January.

"There is no question of rescheduling," said Mr Ferenc Rabar, the finance minister.

Fears of payments problems have arisen as it becomes apparent that the oil price rise and the introduction of world market prices in trade with the Soviet Union, Hungary's main energy supplier, will push the country's current account deep into deficit next year.

Hungary will need to finance a current account deficit of $1.5bn in 1991, according to finance ministry projections, in addition to $2.2bn of repayments on the country's $20bn foreign debt, the highest per capita in eastern Europe.

"Taking everything into account, I am not confident that Hungary can remain current on debt payments," a senior UK bank economist told Reuters news agency last week. Hungary's respected Economic Research Institute has also warned of a threat to liquidity.

Hungarian national bank officials worry privately that the government's projected deficit cannot be financed, but they are still adamant that there will be no rescheduling.

Mr Imre Tarafas, first deputy president of the bank, said that if financing could not be found for the $1.5bn deficit, then the deficit would have to be reduced. "We are not the kind of country or bank to ask for debt renegotiation."

National bank plans call for $1.2bn of credits in 1991 from international monetary organisations and the EC, and for the remainder of financing needs to be covered by turning to the capital markets.

Bad old ways spoil new-style Romanian politics

Deep distrust, nationalism and an immovable bureaucracy are the real enemies, writes **Judy Dempsey**

ATTEMPTS by Romania's government to implement a radical economic reform programme aimed at paving the way for the market economy are being blocked by a fragile political system, nationalist propaganda and a conservative bureaucracy.

The structures are fragile because the government must start from scratch in building social, economic and political institutions which were destroyed after 40 years of communist rule.

To compound the problems, Mr Petre Roman, the prime minister, is confronted with a society riven with distrust, lies and suspicion, features which are partly a hangover of the Ceausescu era.

But when critics today challenge the country's authoritarian political traditions as a means of explaining the difficulties in establishing democratic structures, they are denounced as "enemies."

The nationalist and extreme right-wing media blame the "enemy" – which includes freemasons, Jews, the foreign press and the Hungarians – for the country's economic difficulties.

In the Romania Mare, a far right-wing weekly, many of these allegations are spearheaded by Mr Eugen Barbu. As one of Ceausescu's chief propagandists, he poured vitriol on, among others, the Jews. Today, he is one of the editors of Romania Mare, which has a circulation of over 500,000. Unlike many other newspapers, it suffers no shortage of paper.

Thus, as the economy deteriorates, the need for scapegoats continues unabated, and with it, rumour and fear.

"In the past, we knew the rules of the game," said Mr Anton Uncu, the editor of Romania Libera, a liberal newspaper. He was imprisoned by Ceausescu in 1989 after he tried to set up an opposition newspaper. "We do not know whom to fear today. The fear is never personalised. Basic instincts are coming to the surface. The *golani* (hooligans), the fascists, the black marketeers, the freemasons are all blamed for the economic crisis. This impersonalised fear turns into hatred and division," he said.

Despite the vacillation between instability and authoritarianism, Mr Roman says his government is genuinely commited to building democracy.

"There is no alternative. Maybe we will make mistakes in the details of the reform. Nobody has a good experience of making the transition [from a dictatorship to a multiparty system]," he said in a recent interview.

The chances of Mr Roman and his team of young technocrats creating a stable democracy depend on their ability to attract a broad base of support, which is not yet forthcoming. The National Salvation Front, which won a landslide victory in last May's elections, has split into factions and is bereft of a policy and a leadership.

One group is dominated by young, pro-government technocrats who would be more at home with forming their own social democratic party with Mr Roman. The other, and stronger faction, is made up of conservatives, bureaucrats and largely uneducated deputies who were hand-picked by the Front to stand in the elections. They are adept at blocking change.

For example, Mr Dan Josif, a Front senator, recently suggested that people should set up private businesses in their spare time, and after their day's work in the state-owned enterprises; earlier this month, the conservatives threw out a government proposal which suggested that people should be appointed on the basis of competence. Had it been passed, tens of thousands of bureaucrats would have been dismissed.

The other bastion of opposition comes from industry. Here, millions of workers have relied on the state for their livelihood. That rug of security is now being pulled from under their feet as the government embarks on its economic reforms.

In effect, the government has become a victim of its propaganda at last May's elections. During the elections, the Front accused the weak opposition Peasant and Liberal parties of wanting to sell the country to foreign capital.

Today, faced with economic collapse, Mr Roman is in desperate need of foreign investment. Sections of the Front, and even larger sections of the workforce, shudder at this prospect. Foreign investment and an influx of foreign managers would diminish the bureaucracy's influence throughout the economy and expose the pervasive corruption and incompetence. Hence the vulnerability of the government. It has to turn the Front's economic and social policies up-side-down, and risk losing popular support. It will also lose support from the Front.

Furthermore, the government has little support from the non-Front opposition. The Peasants and Liberal parties remain suspicious following the miners' ransacking of their offices last June. The Hungarian Democratic Alliance, the second largest opposition grouping, is ambiguous in its support. The Group of Social Dialogue, a group of liberal intellectuals, remains aloof from politics.

When they speak out, the nationalist press, which supports President Ion Iliescu, is quick to sow seeds of division between intellectuals and other social groups.

As for Mr Iliescu, so far he has given Mr Roman *carte blanche* to introduce reforms. But he is reluctant to support the government openly. His instinct is to side with the Front's conservative and populist factions.

Against this background, the government could well be sacrificed if it fails to deliver on the economic front. Any collusion between workers, whose economic expectations cannot be met, bureaucrats who fear for their jobs, and nationalists who oppose the democratic system, could rapidly lead to unrest. Were Mr Roman's government to fall, Mr Iliescu, or the army, would be tempted to seize power.

For Mr Roman, the only hope is western financial support which could make economic and social reforms more palatable to Romanians and increase the chances of stability. But assistance is slow in coming. And as Mr Roman and his ministers admit, time is not on their side.

Strike will halt France's legal system for 24 hours

By William Dawkins in Paris

ALMOST THE entire French judiciary is today due to grind to a halt as magistrates, legal officials and lawyers mount a 24-hour strike in protest against alleged underfunding by the government.

The stoppage comes four months after the first strike by magistrates in nine years highlighted the judiciary's growing anger at what it sees as erosion of its powers, lack of staff and poor pay and working conditions.

Today's demonstration, by nine unions across the legal profession, is triggered by widespread disappointment at the FFr16bn (£1.6bn) justice budget for 1991, due to be debated in parliament today.

Magistrates accept that the budget, a real 6.7 per cent rise on the current year, is an improvement, but it falls well short of what they had been led to hope for by repeated promises from Mr Michel Rocard, the prime minister, to tackle the judiciary's problems.

The profession is groaning under the weight of a 50 per cent rise in the case load over the past decade, with only a negligible increase in the number of magistrates, now around 6,200. Magistrates are demoralised by poor prospects for job promotion. They also feel insulted by the blow to their professional independence inflicted by the passing of a law last year which included an amnesty for certain people suspected of using corrupt methods to raise cash for political parties.

This is the first real test for Mr Henri Nallet, France's new justice minister, who until the cabinet reshuffle early this month was in charge of another notoriously unhappy sector, agriculture. The strike is aimed against Mr Rocard rather than Mr Nallet, who clearly arrived too late to influence the justice budget.

So far, Mr Nallet has benefited from his image as an independent new arrival to this long-running problem by making a good impression among the sceptical magistrates.

He told a weekend conference of the USM, the largest magistrates' union, that he planned to improve salary structures and training for the judiciary, though he was unable to give any specific undertakings on the overall budget.

"You and we have the same diagnosis of the situation, on the basis of which we can start to work together," he said. But he warned: "If you want to be properly understood by public opinion and by the government, you must be aware that your action must respect the constraints of the law."

Cossiga strives to rise above the party fray in Italy

By John Wyles in Rome

MR Francesco Cossiga's initial feeling when he arrives in London today on a three-day state visit will almost certainly be relief. The Italian president was embarrassed three years ago when he was forced to cancel a similar visit by one of the more trivial domestic political crises of recent years.

Now into the fifth year of his seven-year term, the slightly stooped, scholarly 62-year-old Christian Democrat (DC) politician has acquired a greater public role and authority than he had in 1987.

He has made an effort to conquer personal reticence and political timidity to fashion his presidency into a vehicle for expressing both public concern and dictates of the Cossiga conscience. He increasingly appears to regard the two as in perfect harmony, although his many and frequently controversial public declarations this year have earned him public criticism as well as respect.

His rebukes of Italian politicians for appearing to reduce every exchange to "a simple contest for power" and his anxieties about politicisation of the magistracy have found a wide public echo.

But his wounding attack last month on Mr Leoluca Orlando, the former Mayor of Palermo who has done much to promote an anti-mafia culture in Sicily – "a good lad misled by a fanatical priest" – was more worthy of a DC faction leader than an occupant of the Quirinale, the president's palace.

Once a precocious 25-year-old constitutional law professor at the university of his native Sassari in Sardinia, Mr Cossiga would undoubtedly worry about degradation in Italy's political institutions.

His new activism – which he sees as "getting rid of some stones in my shoe" – and his attack on Mr Orlando may also reflect a desire to renew his tenancy at the Quirinale after his term ends in 1992.

To those who see a hidden hand behind recent discovery and publication of 419 photocopied documents and letters of the late Aldo Moro, the criticism of Mr Cossiga in them will suggest the manoeuvre could be aimed partly at tampering such ambitions.

Mr Cossiga was interior minister during the 55 days Mr Moro was held by the Red Brigades and set a precedent in Italy by taking responsibility and resigning his office after the DC president's murder.

He says the trauma of those days "had a great impact on my spiritual and personal life." But no more detailed revelation about his suffering could be expected from a man some Italian journalists characterise as "inglese" because of his cool nerve and elusive personality.

He admits to a profound admiration for British institutions and legal processes which he believes was nurtured in Sassari, whose traditions are strongly liberal and democratic.

He will certainly find the state visit more enjoyable than he does some of the more ceremonial aspects of his role in Italy. He takes some refuge in things mechanical from boredom and his intense daily monitoring of Italian politics. Once a passionate radio ham, he is slightly infatuated by electronic gadgetry of all kinds and recently brandished a pocket telephone in front of a group of foreign journalists with almost childish pleasure.

Cossiga: greater authority

New view for Yugoslavs

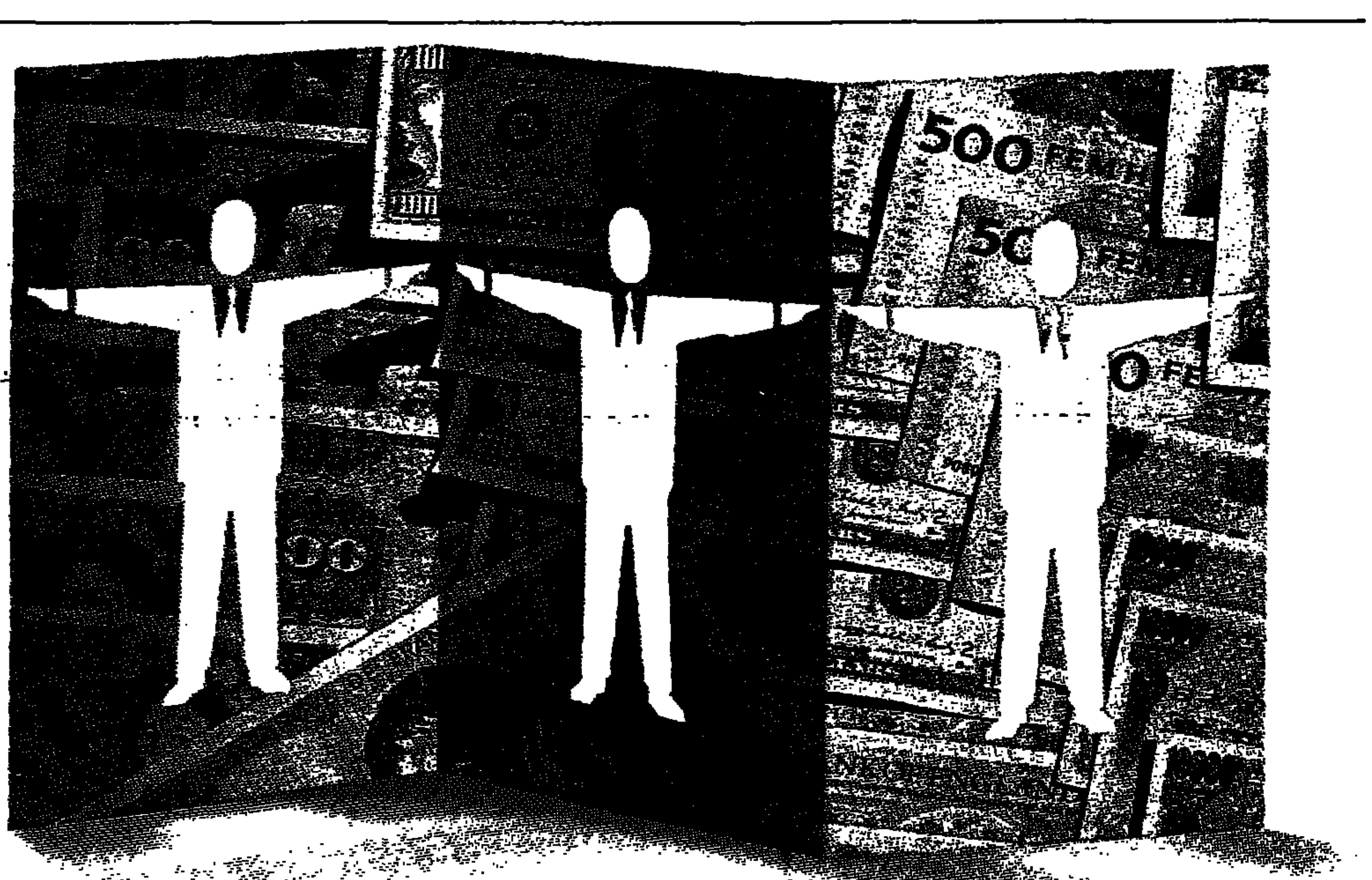
A TELEVISION station launched by the Yugoslav government will start broadcasting today with the aim of presenting a balanced view of events in the country, Reuter reports from Belgrade.

Mr Nebojsa Tomasevic, the director of Yutel, the new station, said programmes would be seen in most parts of Yugoslavia, except Serbia, which has refused to broadcast them.

The station would show news and information programmes for one hour every evening. Television stations in Yugoslavia are under the control of regional authorities which have used them in a media war that has fuelled ethnic and political tensions.

US computer plant to open in Limerick

Dell Computer Corporation of the US is to set up a factory in Limerick, in Ireland, to manufacture computers for the European market, writes Michael Skapinker. The plant, which will initially employ 150 people, will be on the site of a former factory used by Atari, another US computer company. That closed in 1985.



THE MIDDLE EAST

Fear reigns in Jerusalem as Israel restricts Palestinians

By Hugh Carnegy in Jerusalem

THE Israeli authorities yesterday barred Palestinians from the occupied territories from entering Jerusalem in a bid to prevent further violence between Arabs and Jews following the fatal stabbing of three Jews on Sunday.

In the West Bank and Gaza Strip, a Palestinian was reported to have been shot dead and a number wounded in clashes with the security forces. With Jerusalem pervaded by its recurrent atmosphere of mutual fear and suspicion, a Palestinian youth stabbed a Jewish man in Neve Ya'acov, one of a number of Jewish suburbs built on land captured from Arab hands in the 1967 war.

The victim was not seriously hurt. His assailant escaped. An Israeli soldier was also reported to have been wounded in an axe attack in Gaza. Meanwhile, troops sealed the West Bank home of Omar Abu Sirhan, the youth who stabbed to death a woman soldier, a policeman and a civilian on Sunday apparently in revenge for the killing by Israeli police of 20 Palestinians in Jerusalem's Old City earlier this month.

Troops, police and paramilitary forces were widely deployed on all routes into Jerusalem and at main junctions within the city to prevent further violence by stopping Palestinians from entering. The authorities feared more attacks in answer to calls for revenge by radical groups following the Old City shootings and Israel's refusal to co-operate with a United Nations investigation.

The security forces also warned extremist Jewish groups against carrying out reprisal attacks on Arabs. Two months ago, a Palestinian was killed when his car was stoned by an angry mob protesting against the killing of two Jewish youths in the city. This time, however, there were few reports of such attacks.

The government of Mr Yitzhak Shamir, the prime minister in the right-wing coalition led by his Likud party, has come under fire from the opposition Labour Party and other left-wing groups for not offering any political avenue out of this cycle of violence. A series of no-confidence motions was presented in the Knesset last night, but the coalition narrowly survived thanks to the support of ultra-orthodox religious parties.

Mr Shamir said the Palestinians were reacting violently because their dreams of "salvation" by Baghdad and of destroying Israel were not succeeding. He and his ministers have repeatedly said Palestinian support for Iraq undermined any prospect of negotiations. The prime minister again criticised the US for backing the UN condemnation of the Old City shootings.

Virgin refuses to blush over role in Gulf crisis

By Jimmy Burns

AS Virgin Atlantic's spokesman was the first to admit yesterday, the Gulf crisis has not all gone the company's way.

Some "negative" commentators had noted the apparent eagerness with which the airline owned by Mr Richard Branson has tried to steal the limelight in the hostages saga, acknowledged Mr Will Whitehorn, the Virgin official.

"They think we're jumping on the bandwagon," he said as the company prepared one of its Boeing 747s to pick up sick and elderly in Baghdad as the result of efforts by Mr Edward Heath, the former prime minister.

In the view of the cynics, rescuing innocent westerners from the clutches of President Saddam Hussein has joined signing up the Sex Pistols, flying balloons and opening megastores in the repertoire of one of Britain's most publicity conscious entrepreneurs.

The Virgin official insisted that "Richard" – the chairman of Virgin has always been referred to by his staff on first name terms – felt genuinely involved in the plight of the hostages because "he thinks it's the right thing to do".

It emerged yesterday that Mr Branson's relationship with the Middle East was first fired three years ago when he helped King Hussein of Jordan discover the wonders and pitfalls of flying a balloon.

More recently, the company says it was first approached in August by the Ministry of Defence and the Foreign Office to see if it might provide airliners to help in the movement of people and equipment caught up in the Gulf crisis.

Since then Virgin has laid on 10 flights to Baghdad and Amman.

Two of these last month brought back western women and children. Other flights have taken medical and food supplies towards the Gulf, and Asian refugees out of it towards Sri Lanka and Bangladesh with the help of a £200,000 grant from the British Government's Overseas Development Administration.

According to Virgin, preparations for the latest flight got under way more than a week ago when Mr Heath rang Mr Branson and asked him to help out.

Virgin refuses to be drawn on why it appears to be playing a somewhat higher profile role in the Gulf crisis than British Airways, although it considers itself less bureaucratic and more friendly than its rival.

Jordanians halt cargoes for Iraq

JORDAN has halted the flow of goods to Iraq, previously its main trading partner, to show compliance with United Nations sanctions against Baghdad, *Reuter reports from Amman.*

Police said yesterday that border authorities had barred all trucks carrying cargo from crossing into Iraq since Friday. The ban includes food and medicine. Jordan has been criticised for failing to implement fully the UN embargo on Iraq.

Iraqi freighter boarded for second time

By Victor Mallet in Dhahran

MULTINATIONAL naval forces in the Gulf region yesterday boarded the same Iraqi flagged freighter for the second time in three days to prevent it delivering a cargo to Yemen in breach of United Nations economic sanctions against Iraq.

Boarding parties from the Australian frigate HMAS Adelaide and the USS Reasoner took control of the al-Bahr al-Arabi in the Gulf of Oman.

It was the first time in recent weeks that an Iraqi ship is known to have defied instructions from the multinational forces after being boarded. Since the Iraqi invasion of Kuwait in August the naval forces have made more than 2,500 challenges to shipping and boarded more than 240 ships of which a dozen have been diverted.

The al-Bahr al-Arabi, carrying plywood and steel pipes from Iraq to Aden, was first boarded by US forces in the Gulf itself on Saturday. US officials say the captain agreed to return north-west to Iraq but subsequently continued south through the straits of Hormuz.

■ MR Richard Cheney, US defence secretary, said Iraq had seized a number of US-made Hawk missiles when it invaded Kuwait, George Graham writes from Paris. The Hawk defence system can destroy fighters 40km away.

France seeks UN talks on Lebanon

FRANCE has asked that the five permanent members of the UN Security Council convene to discuss the conflicts in Lebanon, AP reports from Paris.

The request follows the defeat this month of rebel General Michel Aoun and the assassination on Sunday of Mr Dany Chamoun, one of his main supporters. Gen Aoun remains holed up in the French Embassy in Beirut. The Lebanese authorities have refused to let him go into exile.

Tokyo fears row with Peking over islands

By Robert Thomson in Tokyo and Peter Wickenden in Taipei

JAPAN is concerned that an argument with Taiwan over a group of long-contested islands in the East China Sea could broaden into a more serious dispute with Peking, which also claims sovereignty over the island group.

China, Japan and Taiwan claim ownership of the five uninhabited islands and three reefs that comprise what Peking calls the Diaoyutai group and what Tokyo refers to as the Senkaku Islands, 200km north-east of Taiwan.

The islands are said to be surrounded by rich fishing grounds, and there were *reports in the late 1960s* that the area could contain significant oil reserves, although Tokyo has refrained from extensive testing of the area for fear of antagonising Peking.

The Taiwan government yesterday protested at Japanese coastguards' obstruction of a private trip to the islands. On Sunday Japanese naval patrol boats and helicopters blocked two vessels carrying Taiwanese athletes from landing on the islands, where they intended to plant an olympic torch as a symbol of Taiwan's ownership.

Mr Misoji Sakamoto, Japan's chief cabinet secretary, said yesterday the islands were "an integral part of Japanese territory" and that the government would deliver a protest note to the Taiwan government, although the two do not have diplomatic relations.

In spite of this, Taiwan will attempt to negotiate with Japan through diplomatic channels and ruled out the use of armed force to solve the dispute.

The Japanese action prompted small protests by Chinese in Taiwan and Hong Kong, but Tokyo is more concerned that Peking will take a strong stand on the issue, which the two countries have *tended to ignore for fear of* damaging their ties.

Peking was annoyed by a suggestion earlier this month that Tokyo will formally recognise a beacon built on one of the islands by a Japanese right-wing group in 1978 and now apparently in need of renovation.

Last week, a Chinese foreign ministry spokesman said that the beacon violated Peking's sovereignty and that the islands had been Chinese territory since "ancient times". A similar statement was made early last year after Mr Sosuke Uno, Japan's foreign minister, suggested the dispute had been solved in Japan's favour.

Posters of sacked prime minister Benazir Bhutto and her main election rival, Nawaz Sharif, in Lahore, capital of Punjab province, yesterday where both planned to conduct their final meetings as the campaign came to an official end before tomorrow's voting. Thousands of police carrying riot gear moved on to the streets of the city to control the tens of thousands of supporters of Ms Bhutto's Pakistan People's Party and her rival's Islamic Democratic Alliance (IDA).

Ms Bhutto, who has been drawing massive roadside crowds on her election tours, opted for a motorcade around Lahore after the authorities awarded the main rally sites to the IDA, saying they asked first. Populous Punjab has more than half the seats in parliament. IDA and PPP flags, bearing the symbols that help a largely illiterate electorate place their ballot marks, festoon Punjab's bazaars in equal profusion in a close-fought campaign.

But local journalists and observers say electioneering is more muted than in 1988, when Ms Bhutto won power after almost 11 years of military rule.

President Ghulam Ishaq Khan sacked Ms Bhutto in August, appointed IDA leaders as a caretaker government and set up special courts to charge Ms Bhutto with misrule. Her husband has also been charged with corruption offences.

Singh's crisis deepens on Hindu temple issue

By David Housego in New Delhi

THE Indian Prime Minister, Mr V.P. Singh warned in a nationwide television broadcast last night that he was prepared to sacrifice his government to prevent Hindu fundamentalists from building a temple in northern India on the site of an existing mosque.

Earlier in his strongest statement yet Mr Singh backed appeals to Mr L.K. Advani, the leader of the radical Hindu BJP party to call off his *rath yatra* (mass pilgrimage) now on its way to Ayodhya, where ceremonies to inaugurate construction are due to be held on October 30.

Implicitly telling Mr Advani that he faced arrest, Mr Singh said that if the appeal was not heeded, "I shall cease to play a mediatory role ... It is my duty to uphold the constitution on which I swore when I assumed the office of prime minister."

The BJP said last week that it would withdraw support from his government if the temple plans were thwarted. Without the support of the BJP, Mr Singh's one-year-old administration would collapse.

In a day of mounting tension in both New Delhi and elsewhere in north India, Mr Singh came under increasing pressure to take tough action against the BJP. Mr Mulayam Singh Yadav, the chief minister of Uttar Pradesh, in which Ayodhya lies, called for Mr Advani's arrest. Chief ministers from other states pledged their support to Mr Yadavein in maintaining law and order in the state where the Ayodhya dispute could precipitate violent clashes between Hindus and Moslems.

The BJP claimed that 15,000 Hindu militants have been put under preventive arrest in Uttar Pradesh. Three people were killed yesterday and several wounding in clashes between Hindus and Moslems at Basti in Uttar Pradesh.

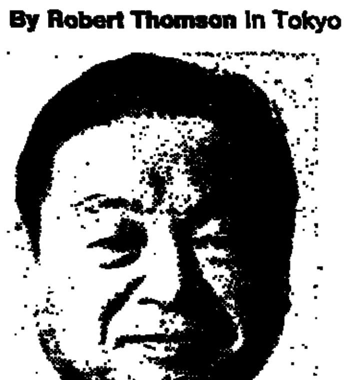
Ministers were increasingly pessimistic of a compromise being worked out. Mr Dinesh Goswami, the law minister, said he did not believe this was possible to achieve in the present emotional atmosphere and in the few days left. He said the government's attention would focus on defusing tensions.

This followed the reversal of a weekend plan under which the government would compulsorily acquire the site, allowing a temple to be built on open land while the mosque would be preserved.

In a last attempt to find a solution, the government yesterday appointed a committee of five chief ministers to renew their search. Two of the chief ministers failed to attend the first meeting.

Japan's race row hangs over Mandela visit

By Robert Thomson in Tokyo



Kajiyama: slur caused storm

THE Japanese government continues to be highly embarrassed by derogatory remarks about black Americans made by a cabinet minister last month but which have gained significance with the planned Tokyo visit later this week by Mr Nelson Mandela, deputy president of the ANC.

Mr Seiroku Kajiyama, the justice minister, began the controversy during a tour of a Tokyo red-light district when he equated the impact of prostitutes on the area to US neighbourhoods that "become mixed because blacks move in and whites are forced to move out".

The comment has drawn expressions of deep regret from Mr Toshiki Kaifu, the prime minister, and Mr Kajiyama himself, but remains a potent issue, with a US congressional resolution late last week censuring the minister.

A US administration's attempt to end the controversy has created confusion in Tokyo, with Mr Kaifu and the Foreign Ministry this weekend strongly denying a White House statement that President George Bush had expressed personal concern to the Japanese prime minister about the slur. The White House spokesman was making the case that enough had been said on the subject.

There are fears in Tokyo that the US Congress sees the comments as an opportunity to launch more general attacks against Japan, and that only Mr Kajiyama's resignation will stop the the criticism.

● Mr Mandela was received as an honoured guest by the Australian government yesterday but some aborigines were less friendly, Reuter reports from Darwin. Mr Michael Mansell, a lawyer who has set up what he calls a provisional aboriginal government, says Mr Mandela was dealing a blow to Aborigines by accepting the invitation from the government.

China says drug problem worsening

By Peter Ellingsen in Peking

CHINA has acknowledged its growing drug problem following an increase in drug-related arrests and the country's first Aids death, an intravenous drug user from southern Yunan province, bordering the notorious "Golden Triangle".

Officials say a special task force of 1,300 police has been formed to stem the flow of heroin and opium through Yunan, long known to be a conduit for drugs, largely destined for overseas markets, from Asia's key opium-growing regions.

Mr Wang Fang, minister for public security, told a meeting of the Heads of National Drug Law Enforcement Agencies (Honlea) in Peking that China would increase co-operation with international agencies to hit cross-border trafficking.

The meeting was told by Mr Francisco Ramos-Galino, Honlea's narcotics director, that ethnic Chinese Triad gangs, not the Mafia, now controlled the world's drug trade.

Peking's crackdown coincides with news of China's first Aids death, identified only as a Yunan man who contracted the virus from a needle.

Mahathir's foes take poll loss badly

By Roger Matthews, Asia Editor

THE convincing victory achieved in the Malaysian general election on Sunday by the National Front coalition headed by Dr Mahathir Mohamad, the prime minister, appears unlikely to herald a period of reconciliation among the politically dominant Malay community.

Tengku Razaleigh Hamzah, a former cabinet colleague of Dr Mahathir who headed the electoral challenge to the prime minister, said yesterday that he congratulated the National Front on its victory. He added: "I wish to recall that this victory has been achieved through the abuse of power, money, the media, government machinery, and by whatever deceit was possible."

The bitterness of Tengku Razaleigh's concession statement reflected that of the election campaign and raises fears that despite winning 127 of the 180 parliamentary seats, more than the two-thirds majority needed to amend the constitution if desired, there may be difficult days ahead for the National Front.

Attention will particularly focus on Tengku Razaleigh's home state of Kelantan, in the Malay heartland, where the opposition took every seat in the local legislature.

The opposition victory gives effective control of the state to the Parti Islam which is now likely to adopt a more fundamentalist stance and seek to use its new power to advance Islam throughout the country.

The main Chinese opposition group, the Democratic Action Party, which was also allied to Tengku Razaleigh, narrowly failed in its ambition to win the island state of Penang. Dr Mahathir could now decide to use his victory to reconcile the Malay community, for whom consensus had been a political way of life until the challenge to the prime minister's leadership of the United Malays National Organisation was launched at the party elections in April 1987.

But Dr Mahathir's angry response to that challenge suggests that he will use his election victory to consolidate his power base, and in particular his power to nominate the man who will succeed him.

It is suggested that Dr Mahathir, having suffered a heart attack and bypass surgery last year, will decide to step down within the next two to three years, allowing a successor time to assert authority before the next election.

South Korean economic growth boosted by investment

THE South Korean economy will grow by almost 9 per cent this year in real terms despite the impact of the Gulf crisis, the governor of its central bank forecast yesterday, John Ridding writes from Seoul.

However, Mr Kim Kun, governor of the Bank of Korea, added that the country was expected to suffer a current account deficit of about $1.7bn because of sluggish exports and rising oil prices. South Korea imports all its oil, which represents about 54 per cent of energy requirements.

According to Mr Kim, the Gulf crisis and the economic slowdown in industrialised countries had forced the central bank to revise downward its June prediction of a 9 per cent increase in GNP for the year as a whole.

But an unexpected increase in investment is compensating for much of the decline and GNP is now expected to grow by a real 8.8 per cent. Last year, real GNP increased by 6.7 per cent.

On the trade account, however, the crisis in the Gulf has ended prospects for a sustained improvement. Current account surpluses in July and September had trimmed the first half deficit of $1.57bn, but increased oil costs and slower demand in South Korea's principal markets have prompted expectations of further deficits in the final quarter of the year. Last year, the current account registered a surplus of $5.1bn.

The increase in international oil prices has also increased inflationary pressures in South Korea. Most analysts now believe that the government cannot achieve its target of a single figure rise in the consumer price index and are forecasting an annual rise of 11-12 per cent.

Mr Kim called on the government to postpone spending on public works and tighten credit in the private sector.

Nairobi breaks off relations with Norway

By Michael Holman in Nairobi

KENYA announced yesterday it was breaking off diplomatic relations with Norway. A foreign ministry statement accused the Oslo government of giving shelter to one of President Daniel arap Moi's prominent opponents, Mr Koigi wa Wamwere, a former MP arrested in Nairobi last week and now facing treason charges.

A Norwegian foreign ministry official said Nairobi had been asked to reconsider its action. However the row may lead to further cuts in Norway's $20m aid programme for next year. It has already been cut by 20 per cent as an expression of Oslo's concern about human rights.

The row seems certain to prompt further concern among western governments about Mr Moi's handling of critics calling for an end to the country's one-party political system. Norway and the US have begun to link aid commitments to Kenya's human rights record, a policy Mr Moi has called "blackmail".

The authorities say Kenya's record is far better than most other African countries, which do not come under the same Western scrutiny.

The diplomatic break was presaged by a bitter attack on Norway by Mr Moi, charging Oslo with complicity in treason.

Mr Wamwere won a reputation as a forthright government critic as an MP and went into self-imposed exile in Norway in 1986. He was arrested in Nairobi last week, together with two local lawyers, having clandestinely returned according to the police who said they had discovered arms caches.

The president defended the arrest and denied reports Mr Wamwere had been abducted from neighbouring Tanzania.

"Why should Norway protest because we have arrested a criminal who wanted to kill people? It appears what he wanted to do was at the behest of the Norwegian government," the president was reported as saying.

The Norwegian ambassador protested against the arrest, demanded Mr wa Were be given access to his lawyers, and said Norway had reported the case to the United Nations.

Mozambique makes way for market

By Stephanie Gray

MOZAMBIQUE'S parliament yesterday approved a clause in the country's new constitution which recognises private property and the role of market forces in the economy.

The decision followed the approval at the weekend of new constitutional articles committing the previously Marxist state to political pluralism after 15 years of one-party rule.

Both are long-standing demands of the rebel National Resistance Movement (Renamo), which the Frelimo government has been battling for 13 years in a civil war which has cost 600,000 lives.

The new economic order will be based on "appreciation of labour, market forces, initiative of economic agents, participation of all types of ownership and action by the state as a regulator and promoter of economic and social growth and development."

A law on political parties is to be drawn up before the end of this year and the first multi-party elections are due in 1991.

Algeria to offer collateral for foreign bank loans

By Stephen Fidler and Francis Ghilès

THE ALGERIAN authorities are to press ahead with a programme under which they will provide collateral to encourage international banks to grant the country new loans.

The programme, underlining the government's resolve not to reschedule its foreign debt, would involve the use of some borrowings from banks to buy zero-coupon bonds which would guarantee the repayment of principal. Zero-coupon bonds pay no annual interest but their value grows until they mature.

The idea, developed by the Paris-based Banque de l'Union Européenne, would be for the establishment of a special purpose company which would borrow $2bn (£1bn) or more. Roughly half would be lent to Algeria and the other half used to buy either zero-coupon US dollar or French Treasury bonds which would guarantee repayment to the banks after 10 years.

A number of possible options have been outlined, including some in which interest payments to banks in years nine and 10 would also be guaranteed.

Because the special purpose company would not be an Algerian borrower, it is hoped that banks will be less unwilling to lend. They would not have to make provisions on their loans and their only risk would be the annual interest payments.

While financing the collateral would increase the Algerians' borrowing costs, BUE argues these increases would be relatively modest over a 10-year period. If the idea worked, such operations could be carried out annually.

The expectation is that Banque Nationale de Paris and Crédit Lyonnais would arrange such an issue.

Meanwhile, the Algerian government remains determined to avoid rescheduling. For Mr Ghazi Hidouci, minister of finance, and Mr Abderrahmane Hadj Nacer, the central bank governor, the broader problem is not so much the size of the debt burden – $25.3bn at the end of last year – but its unfavourable maturity schedule.

Of the total, 70 per cent matures before the end of 1993. They remain determined to avoid rescheduling not least because such a move would close Algerian access to the international capital markets for a long time.

Their determination is comforted by the doubling in oil prices since the start of the Gulf crisis. Senior Algerians expect the increase will earn the country's state oil and gas monopoly, Sonatrach, about $1.5bn more than expected, thus bringing total foreign earnings for 1990 to $11.5bn.

Some international bankers who follow Algeria argue that these figures are too conservative. Whatever the exact figure of the windfall, Algeria's anticipated current account deficit has been turned into a surplus of at least $500m.

The revenue windfall will be used to repay an estimated $600m in arrears owed by Algeria to foreign companies and strengthen hard currency reserves which currently amount to $455m and are expected to rise to $900m by the year-end. Gold worth $2bn at current market prices is not included in this figure.

The longer term aim of the central bank is to hold hard currency reserves worth around $2.5bn, that is the equivalent of three months of imports.

The third priority will be to boost economic growth through a limited increase in imports. Meanwhile, measures aimed at liberalising the economy continue with a number of joint ventures expected to be signed during the next few months.

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AMERICAN NEWS

Bush poised to overrule key minority rights bill

By Lionel Barber in Washington

PRESIDENT George Bush was last night poised to veto a key civil rights bill, a move certain to hurt his efforts to woo black voters to the Republican cause.

The veto threat follows months of White House negotiations with Congress and arguments among Mr Bush's top advisers over the bill, the legislative priority for black leaders this year.

The bill aims to overturn or modify five Supreme Court decisions which, critics argue, would weaken the rights of minorities and women in discrimination cases.

Having pressured Mr Bush on the issue of taxing the rich, the Democrat majority in Congress is now intent on casting him as a president insensitive to minorities.

Republicans, meanwhile, are urging Mr Bush to be decisive, even if it means upsetting blacks.

The president is caught in the middle. He has worked hard to bury memories of Mr Ronald Reagan and his studied indifference towards minorities

Bush: increased black vote

– so hard that his approval rating among blacks jumped above 70 per cent, according to polls earlier this year.

Mr Bush said the bill passed by the House and Senate last week would make it too easy for plaintiffs to prove discrimination. He argued that employers would probably hire minorities and women to avoid legal action, even if they were not properly qualified. The bill set down "quotas", he said.

The House and Senate do not have the two-thirds majority votes required to overturn a presidential veto, so the bill seems certain to die. Some observers believe Mr Bush would have signed the bill if the budget fiasco had not intervened.

This is by no means certain. Recent polls suggest deep resentment among low-income white voters who believe blacks and other minorities are receiving preferential treatment and are abusing the welfare system. Republicans could tap this profitably in next month's mid-term elections.

In the background, is the newly emerging debate about the civil rights/Great Society legislation of the 1960s which may have helped some blacks improve their lot – but which have singularly failed to help the underclass.

The rich are different – they pay less tax

But making the wealthy fork out their 'fair share' will have little effect on the budget deficit, reports Peter Riddell from Washington

THE American Dream is based on equality of opportunity rather than equality of outcome.

The current Democratic "fairness" campaign and effort to increase taxes on the rich in the budget package does not represent the start of a class war. Most Americans are quite content to tolerate millionaires provided they pay their fair share of taxes.

There is no dispute that inequality increased substantially during the 1980s.

This was a result both of specific Reagan administration tax cuts favouring the rich and of a debt-driven boom in asset values.

It was a climate in which it was socially and politically acceptable to be ostentatiously wealthy.

The share of national income received by the top 1 per cent of the US population rose from 8 to 15 per cent between the late-1970s to the late 1980s. Their share of the overall income tax burden rose from 18 to 27 per cent during the 1980s.

Internal Revenue Service figures show that the number of tax returns from those with gross annual incomes of more than $1m jumped from 15,000 in 1984 to 65,000 in 1988.

The number of returns showing incomes of between $500,000 and $1m rose from 29,000 to 119,000 over the same period.

A controversy has raged in recent months by political analyst Kevin Phillips' book – The Politics of Rich and Poor.

He points to two earlier instances in American history when heydays for both the wealthy and the Republicans, in the 1880s and the 1920s, have been followed by economic downturns and marked swings in the direction of populism and progressivism.

His argument that the time is ripe for similar transformation has been eagerly seized upon by the Democrats looking for a popular, unifying theme.

The increase in income disparities and stories of tax evasion by the wealthy have underpinned support in the polls for raising taxes on the rich.

But this has been less a burst of egalitarianism than a call from those with middle incomes, whose take-home pay has been squeezed, for a fair contribution from the wealthy.

A new Washington Post/ABC News poll points to an admiration and respect for the wealthy among 55 per cent of those interviewed.

Some 58 per cent want to be rich themselves and 27 per cent think they will be rich one day.

The wealthy are seen by the majority as more likely to be well-educated, intelligent and physically attractive, though also more likely to be racists and snobs. Two-thirds think the rich are less likely to be honest.

There are contradictory strands in the poll – including the combination of a belief that people ought to have the chance to become rich with ambivalent feelings towards those who do.

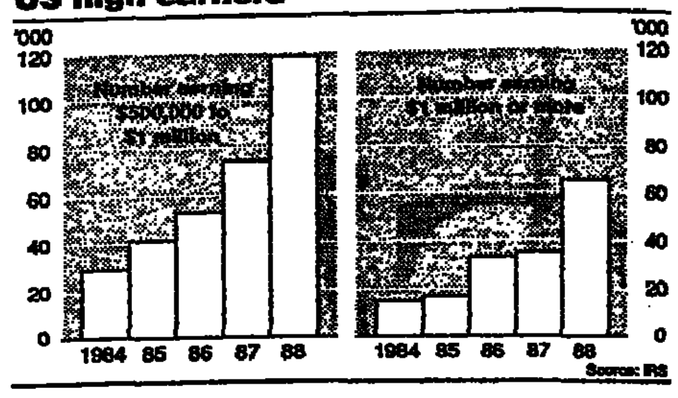
Although the rich may be an attractive target, in budgetary terms they are an almost marginal one.

Even the 10 per cent surtax on those earning more than $1m a year suggested in the House budget plan would raise only $7.6bn over five years, just 1½ per cent of the total deficit reduction package.

Extending a 33 per cent income tax rate to all higher income taxpayers would raise $50bn over the period.

Even if the wealthy contribute their "fair" share through various higher taxes, the main burden of deficit reduction will inevitably fall on the vast majority of wage earners.

US high earners



Venezuela to reschedule Nicaragua's oil debt

By Joe Mann in Caracas

VENEZUELA has agreed to stretch over four decades the repayment period for long-overdue Nicaraguan oil debts.

The unusually generous terms tacitly recognise that Caracas is unlikely to receive significant repayments from Nicaragua, which is struggling to rebuild its stricken economy.

Nicaragua owes Venezuela $160m (£81.2m) in principal for oil shipped under terms of the San José Agreement, a joint accord by Venezuela and Mexico to supply oil to Central American and Caribbean governments at a discount.

The Venezuelans agreed during a recent visit from President Violeta Barrios de Chamorro of Nicaragua to reschedule payments of $160m over a 40-year period, with six years of grace. According to Nicaraguan officials, interest payments will be contingent on Managua's ability to surpass an annual export target of about $1.4bn.

It was not clear if $90m in overdue interest would also be rescheduled or simply forgotten.

Venezuela only recently rescheduled most of its own external public sector debt with international banks, for a period of less than 20 years.

Last June it began shipping oil to Managua after a gap of several years. However, this is a temporary arrangement as official oil shipments under the San José accord will not start until both Mexico and Venezuela have reached a settlement with the Chamorro government.

Nicaragua owes Mexico close to $1bn for oil.

A Nicaraguan official said his government's total foreign debt was $11bn, most of which is owed to the Soviet Union and former members of the Eastern bloc.

Central American and Caribbean countries owe Venezuela about $900m, for oil supplied under the San José Agreement.

These debts have been quoted on secondary markets at only a tiny fraction of their face value.

Panama claims to have pre-empted coup

THE PANAMA government has claimed to have stopped a rebellion by middle-ranking officers within its police force, following the arrest of two ringleaders over the weekend, Tim Coone reports.

The Ministry of Government and Justice said the revolt was an "attempt to destabilise President Guillermo Endara's government, but we have ruled out that it was a coup attempt".

The ministry said two captains, from an elite anti-terrorist unit, were organising a nationalist movement within the 12,000-strong police force and intended to seize several barracks in the provinces of Chiriqui and Colon, the latter at the northern end of the Panama canal.

Arrests continued over the weekend, as other suspects were rounded up. Both captains had served in the former Panamanian Defence Forces (PDF), which was dismantled following the US invasion in December last year.

The majority of its troops were then recruited into the new police force, which took over public order duties as the US force gradually withdrew.

About 10,000 US troops remain based in Panama, however, and are likely to stay there even after the Panama Canal Treaty expires in 1999.

Mr Deane Hinton, US ambassador to Panama, reiterated at the weekend that his government continued to support President Endara's administration.

Argentine troops unhappy over low pay

CONCERN is rising in Argentina over discontent in the armed forces because of low pay, particularly among right-wing extremists who support retired Colonel Mohammed Ali Seineldin, leader of the military uprising two years ago, writes John Barham in Buenos Aires.

This coincides with a wave of bombings in Buenos Aires, which yesterday saw a bomb exploding outside the British Hospital causing damage but no injuries. Last week four bombs went off at offices of companies involved in the government's privatisation programme. Nobody claimed responsibility for the attack on the hospital, but a previously unknown group, the Eva Peron Commando, said it placed last week's bombs.

Vice-president Eduardo Duhalde and Mr Humberto Romero, the defence minister, met yesterday to discuss taking action against Col Seineldin. A letter sent to the residence of President Carlos Menem at the weekend, purportedly from the colonel, warned of military "protest movements of such gravity that neither you nor I are able to predict". Officials are puzzled that the letter was sent, since President Menem is on a 10-day European tour. Mr Duhalde has said that, if Col Seineldin wrote the letter, he will be "severely punished" for insubordination.

Congress agrees new targets for environmental legislation

By Peter Riddell

NEW RULES and targets for reducing damage to the environment caused by acid rain have been agreed by congressional negotiators, removing one of the last obstacles to finalising the most far-reaching clean air legislation since the 1970s.

Agreements have already been reached on auto-emission controls, the use of alternative fuels and airborne toxic industrial chemicals.

The last remaining problem concerns proposals, approved by the House but narrowly rejected by the Senate, which would provide $250m over five years in additional unemployment benefits for workers such as coal miners who lose their jobs because of the legislation. This provision is strongly opposed by the White House.

On acid rain, a series of compromises has been reached to deal with the concerns of legislators from mid-western states which will be most affected by the costs of cleaning up dirty coal-fired utilities.

The plan's target is to cut by half power plant emissions of sulphur dioxide, the main component of acid rain. This involves the use of pollution credits, earned by bettering prescribed pollution limits, and which are saleable to other utilities seeking to expand.

The negotiators agreed various incentives for scrubbers, which reduce sulphur from plant emissions. Between 1995 and the year 2000, coal-fired utilities in Ohio, Indiana and Illinois would received extra credits worth as much as $100m.

This meets some of the concerns of legislators from mid-western and Appalachian states about a big loss of jobs in their high sulphur coal mining areas.

The total cost for US industry of implementing the legislation has been estimated at up to $25bn annually by the year 2005.

Prospects for the legislation revived earlier this month after a compromise on the contentious issue of car emission standards.

The legislation had been stuck in a Senate/House conference since late spring, following differences between environmentalists and manufacturing and utility interests.

However, environmental groups have expressed disappointment that the motor industry is not being pushed enough to produce new anti-pollution technology. By contrast, motor manufacturers have said the package is extremely tough.

WORLD TRADE NEWS

Talks on trade in services move to decisive phase

By William Dullforce in Geneva

URUGUAY ROUND talks on the liberalisation of the $600bn (£315bn)-a-year world trade in services moved into a decisive phase yesterday.

A group of senior negotiators has been given two weeks to try to resolve conflicts over how 10 basic service sectors, ranging from banking to audiovisual programmes, can be incorporated into a new General Agreement on Trade in Services (Gats).

With only six weeks left before trade ministers meet in Brussels to conclude the Round, the conflicts of interest which are still thwarting the negotiations were displayed in reports to the Group on Negotiations in Services (GNS) yesterday.

The reports came from working groups of experts who have been trying to determine whether the particular characteristics of the 10 sectors could be accommodated into a Gats framework of general principles.

Negotiators acknowledge that the more exceptions allowed from the general principles, the more the validity of the Gats is undermined and for many countries its attraction is lessened.

However, in the talks at the experts level, two self-proclaimed champions for the removal of barriers to trade in services – the European Community and Washington – have been seeking derogations from the most-favoured-nation (MFN) rule for some sectors involved.

Under the MFN rule, trade benefits negotiated with one country must be granted to all others.

The EC wants MFN derogations in the civil aviation sector, in maritime transport, in land transport for inland waterways, trucking, rail and buses, and in audiovisual services.

Washington is holding out for exemptions in civil aviation, international shipping and telecommunications.

Each group of experts was asked to decide whether or not its sector should be accorded special treatment in an annexe to the Gats.

Two draft annexes were presented to the GNS, on telecommunications and financial services.

While the telecommunications draft has considerable backing and is marred only by the US demand for an MFN exemption, the text on financial services, elaborated by a small group of finance ministry officials, is highly controversial.

Several developing countries, including Brazil and India, yesterday objected to it being taken as a basis for further negotiation.

In the audiovisual sector, concerning principally the sale of cinema, video, radio and television programmes, the European Community has its back to the wall.

Brussels is seeking derogations from the Gats provisions, using a "cultural content" argument to defend its industry against huge imports of US films and television programmes. The conflicting interests of US and EC shippers have provoked a difficult situation in maritime transport.

Washington wants a series of exemptions from the general principles, including the right to retain its national dispute settlement rule. The EC is seeking exemptions for the bilateral cargo-sharing agreements it has concluded under the UN liner code, of which the US is not a signatory.

Uruguay Round negotiators have agreed to introduce important revisions to three Gatt codes, covering technical barriers to trade (better known as the standards code), import licensing procedures and customs valuation, William Dullforce reports.

To prevent standards being used as a device to protect domestic industries, the amendments sharpen definitions of what constitutes an unnecessary trade barrier and what standards can be considered as legitimate. The import licensing revisions will ensure traders are kept better informed and allow them more time to adjust to newly introduced licences.

VW's humble hunch-back makes a comeback in Mexico

The Beetle has proved to be the Mexican people's choice for cheap transport, writes Richard Johns

THE sophisticated version of the VW Beetle being manufactured in Mexico today has come a long way from the prototype designed by Ferdinand Porsche at the behest of the Third Reich in the 1930s.

Output of Volkswagen's durable little hunch-backed vehicle came to a halt in Brazil in 1986.

Since then, Mexico has been the last production stand, but *death for the flourishing Mexican Beetle seems a remote possibility.*

Like all other cars manufactured in Mexico, new Beetles (old ones are undoubtedly one of the biggest contaminators of the air in the Valley of the Mexico) will be fitted next year with catalytic converters to satisfy the country's belated environmental campaign and to make the Beetle eligible for the US market.

Mr Martin Josephi, president of Volkswagen de Mexico CA de CV, is the first to acknowledge that the Beetle's success in Mexico has laid the foundation for a DM1.5bn (£500m) investment programme over the five years from 1990 to 1994.

Output of Beetles to the end of August had risen to 57,592, compared with 17,813 in the same period of last year, a more than three-fold rise.

In this period it was the best selling model, still sneered at by rival manufacturers for its relative simplicity but perhaps also because because it is by far the cheapest.

Overall the increase in production, including combi-vans, recorded by the German company in the first eight months of this year was 83 per cent compared with 17 per cent for the industry as a whole, according to the Mexican Automobile Industry Association (AMIA).

The share of the Wolfsburg-based company rose from 18 to 28 per cent – and the Beetle was mainly responsible.

In Mexico its name is Sedan. Popularly, it is known as El Vochito but probably would better be known officially now as El Coche del Pueblo (The People's Car).

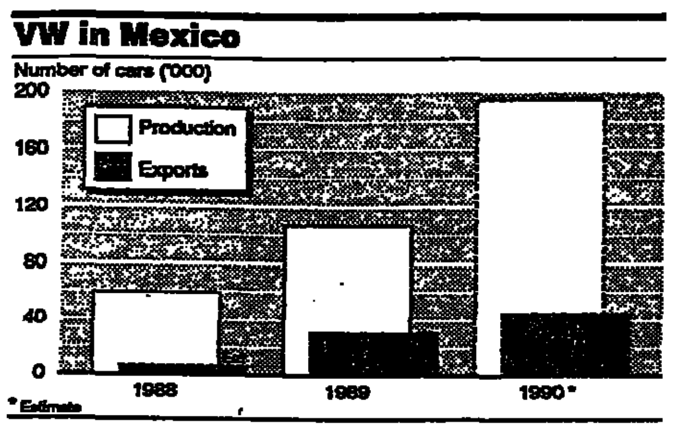
Demand has surged in response to an initiative taken in 1989 by President Carlos Salinas de Gortari's administration, which challenged the motor industry to produce a vehicle at a cost accessible to people of lesser means.

In exchange for fiscal concessions, exemption from 7 per cent duty on imported parts and 2 per cent luxury tax on new cars, VW Mexico is selling Beetles at 15.68m pesos (rather less than $5,250), one of the cheapest cars available in the world.

It was, therefore, entirely appropriate that Mr Salinas agreed to take delivery this month of the one millionth Beetle produced by VW of Mexico since output began 25 years ago and the second millionth vehicle, a Golf – both of which are to be raffled for charity.

VW switched North American output of Golfs from a plant in Pennsylvania to Mexico two years ago and now produces the Jetta too. Both are main export models for VW.

VW in Mexico



For the Salinas administration, the investment commitment of a European (rather than North American) multinational is politically important within the context of its negotiations on a free trade agreement with Mexico's powerful northern neighbour.

Though the Beetle is now almost wholly reserved for Mexicans – with a two-to-three-months waiting list for new cars – VW is one of the country's major exporters.

It ranked fifth in 1989 in a survey by the business magazine Expansion, behind General Motors and Ford, but with a far bigger increase in value terms of 104 per cent, compared with 17 per cent and 19 per cent for its US competitors respectively.

Statistics published by the the Mexican Industrial Automobile Association (AMIA) show exports of units by VW to have rather more than doubled.

Its performance in a rapidly expanding domestic market compares with percentage increases of 27 per cent by General Motors and 2 per cent by Ford (whose export-orientated Tracer-producing Hermisillo plant was closed down for retooling until mid-April). Nissan's performance declined by 17 per cent and Chrysler by 2 per cent.

Mr Josephi says that VW's overall exports this year should reach $800m out of a total of $2bn.

About half will be accounted for by North America and most of the rest by Europe, with Brazil also a significant customer.

Expanding sales abroad of engines, axles and other spare parts will account for a significant part of the total, Mr Josephi says, stressing that the Mexican affiliate is very much in competition with those in Europe and still enjoys the advantage of cheaper labour.

But training is an area in which Volkswagen de Mexico clearly feels it excels, putting high-school trainees (leaving age 16) through three-year courses.

Mr Josephi clearly believes in the reciprocal benefits which would be provided by a free trade agreement with the US or a trilateral one with Canada.

VW's DM1.5bn investment commitment, aimed largely at raising capacity from 220,000 to 300,000 vehicles annually but also modernising the plant and improving models, should alleviate some of Mexico's fears that it will lose out in the wake of German reunification and the lure of the eastern European markets.

Beetles now account for nearly two-thirds of VW car output at the Puebla plant. Who knows, they could soon be finding their way to Warsaw and Budapest.

Hopes fade of end to EC farm impasse

HOPES were fading last night that European Community Foreign Ministers would be able to break the EC impasse on farm reform, Tim Dickson reports from Brussels.

Foreign Ministers of the 12 had been asked to discuss Brussels' proposal for a 30 per cent cut in supports, after EC farm ministers failed to reach agreement. Yesterday, the main aim of Mr Gianni de Michaelis, current president of the EC Council of Ministers, seemed to avoid formal talks on the issue at next weekend's special Rome summit.

Officials fear a clash between Mrs Thatcher, UK prime minister, and Mr Helmut Kohl, German Chancellor, who has intervened to back Mr Ignaz Kiechle, his farm minister. Detailed talks on the Commission's 30 per cent proposal, its offer for the Uruguay Round's final stages, was not contemplated yesterday. But some believe the ministers may try again next week.

US chip market growing in Japan

By Robert Thomson in Tokyo

FOR the past two years, Mr David Metz has argued the case for US semiconductors in Tokyo, and, with a certain satisfaction, he notes there are now fewer disputes and more US chips in Japan.

"There were Japanese companies that would not use alien chips. Japanese industry has now recognised there is a US-Japan semiconductor agreement, and that they have a stake in maintaining fair international trade," says Mr Metz, executive director of the Semiconductor Industry Association office in Japan.

But the US-Japan semiconductor pact, signed in 1986, remains one of the most sensitive bilateral trade issues, and Japanese companies have been irritated by recent US proposals to fashion a new agreement when the present pact expires next July. The present agreement calls for a 20 per cent market share for foreign chips by July, but it is expected that the figure will be closer to 16 per cent. US companies, and Mr Metz, are prepared to give Japan more time to reach the 20 per cent level as the first target in the next five-year agreement.

"Frankly, I think Japan needs another chip agreement. For something like this to work in Japan, you really have to have specific targets. I think this has been shown," Mr Metz said. His first stint in Japan was from 1972 as local head of semiconductor business for Motorola, and he will return to the US to work for that company. In the early days, "there were no arguments about market access, there were just import barriers".

His stint in Japan has aroused his interest in industrial policy, and he admires the foresight of some Japanese politicians and the Ministry of International Trade and Industry in targeting semiconductors as a key industry of the future. But he is also convinced US semiconductor makers have a reasonably bright future: "I am optimistic there will be a US semiconductor industry. US companies are delivering good quality chips on time in Japan. They have shown they can do the job."

His stay has convinced him that stories about Japanese lacking in creativity are unfounded. A "fringe" of younger Japanese were now developing software programmes challenging the US product.

"It used to be said the Japanese could have the hardware market because they were better suited to developing it, but the US would always have the software. You must have both," Mr Metz said. He thinks he is lucky to have been in Japan when market share for foreign chips is expanding. Foreign groups needed to be involved in Japan, to keep up with technological innovation.

Deutsche Bundespost chooses digital equipment suppliers

By Robert Taylor in Stockholm

DEUTSCHE Bundespost Telekom has chosen the Flexnode consortium as one of its three suppliers of digital transmission equipment for Germany's telecommunications system between 1992 and 1997, it was announced yesterday.

Ericsson, the Swedish telecommunications equipment company, is part of the consortium, along with DeTeWe of Berlin and Fuba Communication, part of the German company Hans Kolbe.

The other two suppliers are to be Siemens and the French company Alcatel.

The value of the order has not been announced yet, but further details on the order will be released next month. However, it is believed it could amount to between SKr10bn (£925m)-SKr15bn.

The order from Deutsche Bundespost Telekom for Ericsson follows on from the company's earlier breakthrough into the lucrative and expanding German telecommunications market this May when it won a DM350m order in alliance with Siemens to install the largest wide-area cellular telecommunications network in Europe.

The products supplied are digital cross-connect (DCC) systems and associated computerised management systems.

Yesterday, Ericsson said the new equipment would enable Deutsche Bundespost Telekom to provide digital leased-line services on demand directly to business customers. The DCCs also improve the use of transmission capacity within the public telecommunications network.

Test installations will start next year with commercial services due to begin by the middle of 1992.

Post Office claim improvements to delivery times

By Paul Abrahams

THE POST OFFICE yesterday said it had made the best improvement yet in the delivery of first-class mail.

It said that between April and September this year, 85 per cent of first-class letters were delivered the following day – its target – by either first or second post. This compared with 77 per cent in the same period last year.

Sir Bryan Nicholson, chairman of the Post Office, said the results meant service levels were "far better than ever before", although he admitted more work needed to be done.

He said that an independent survey of national delivery rates showed that the percentage of first-class mail arriving on target was 92.2 per cent in local areas (88.4 per cent last year); 86.3 per cent in adjacent areas (78.5 per cent); and 78.1 per cent of long distance mail (65.4 per cent).

The survey was commissioned from a research company by the Post Office and endorsed by POUNC, the industry's watchdog.

However, its findings were challenged yesterday by the Forum of Private Business, which represents 17,500 small businesses. Its own survey claimed that only 30 per cent of mail arrived the next working day and that 7 per cent took three working days.

The FPB study was accused of being a "Mickey Mouse survey" by Sir Bryan. "The FPB survey was made up of only 574 postcards," he said. "Our survey, conducted independently on an agreed methodology with our watchdog, involves a quarter of a million letters. I cannot allow my management strategy to be ruled by a sample of 574 letters."

The FPB said its survey was the first it had conducted and would be repeated every six months. It called for the break up of the letter monopoly. "If the Royal Mail cannot provide a first-class service, it should step aside and give someone else a chance," said Mr Stan Mendham, founder of FPB.

Sir Bryan said the "very good value" second-class delivery service ensured 96 per cent of the letters handled – just over half the total of 60m letters posted every day – reached their destination within the three-day target.

GKN looks at project in Germany

By John Griffiths

GKN, the motor components, industrial services and defence group, is expected to decide before 1991 whether to proceed with a project to produce car driveshafts in east Germany.

If the go-ahead is given, GKN will use a plant at Mosel, near Zwickau, previously set up to supply driveshafts for the outmoded East German Trabant car, to make constant velocity driveshafts for the facility that Volkswagen is setting up – also at Mosel – to produce 250,000 Golf and Polo cars a year from 1994.

The new VW plant is close to the existing Trabant factory and will involve capital investment of about DM3bn (£1bn), including the construction of metal stamping facilities, body-shell assembly, paint shop and final assembly operations.

GKN had considered undertaking the Mosel driveshafts facility on a joint venture basis, but is now expected to fund the project itself on the basis of long-term, secure contracts from Volkswagen.

The UK components group, which has 11 driveshaft-making facilities around the world, derives about three-quarters of its annual automotive turnover – or some £900m a year – from driveline components.

Labour consummates marriage to Europe

Ivo Dawnay examines the motives behind the conversion of Britain's opposition party

FAR from love at first sight, the gradual seduction by Brussels of Britain's opposition Labour Party has seemed at times more a marriage of convenience, firmly based on the old adage that 'my enemy's enemy is my friend'.

Nor is today's Commons debate on Britain's entry into the Exchange Rate Mechanism (ERM) likely to shed much more light on the true extent of Labour's conversion to things European.

But while some anti-EC Labour politicians will suffer a touch of political indigestion at hearing their shadow chancellor claim the ERM as his own, others will be straining for hints from the party leadership as to how it may try to keep a step ahead of the government without exposing rifts in its own ranks.

So far, Labour has had considerable success in selling itself as both united and constructive on the EC. But the image building owes as much to stealth as to conviction.

When Mr Chris Smith, a Labour Treasury spokesman, hinted in a television interview last week, that a new step towards the European mainstream on monetary union was now being contemplated, party officials leapt to fill the security breach with conditions and reservations.

Bound for Europe: Kinnock appeals for party backing

In part this is for historical reasons. The party's conversion from outright opposition to the EC to the now official "cautious but constructive" positivism owes as much to dislike of Mrs Thatcher as to affection for Mr Jacques Delors.

There are few major milestones to chart the course of what has been Labour's greatest U-turn since the abandonment of unilateralism.

But when the TUC's decision to invite the EC Commission president to its 1988 conference was followed a fortnight later by the prime minister's Bruges denunciation of a "European superstate", even the sceptics could see advantages in taking the parliamentary battle to the the continent.

Labour, meanwhile, retains the advantages of opposition. While the government must agree a stance for the Inter-Governmental Conference in Rome in December, Mr Kinnock needs merely to agree a nebulous form of words with his partners in the Confederation of European Socialist Parties on the conditions for further economic convergence.

With the vast bulk of the party still agnostic on the issue, continued hostility from the prime minister could prove just sufficient a glue to keep Labour united.

That was confirmed last year when the European parliamentary elections saw an upbeat Labour campaign impose the party's first substantial defeat of the government in a decade.

Since then, however, Labour's march towards a democratic socialist Europe has been impeded by the problems of keeping the party in step.

Today, attitudes to the key issues, monetary and political union and a European Central Bank, cut right across the traditional left-right battlelines.

The official party position insists that continued economic integration is "inevitable".

But it goes on to insist that full monetary union and a single currency can only come after greater convergence between the UK economy and those of its partners.

On a European Central Bank, Labour insists that this can only take place when political accountability is in force and the bank's statutes establish a firm commitment from its directors to adopt regional, social and growth policies.

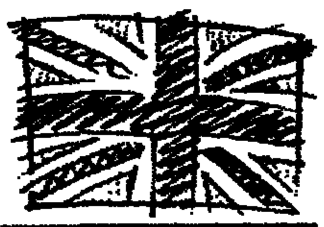
For longstanding anti-marketeers party agreement on ERM entry was already a step too far. Mr Peter Shore, a prominent member of the anti-EC Safeguards Committee, objects strongly that the issue had never been properly debated within the party.

"I am uncertain whether it [ERM entry] is due to pro-EC posturing or its is a more serious failing to understand the questions and implications of EMU or a single-European currency," he insists, adding that sovereignty issues are still not understood by the rank and file.

On the other hand, some on the left such as Mr Brian Sedgemore, a Campaign Group member now firmly committed to further EC integration, argue that only by means of a single currency can a socialist Europe defend itself from the swings floating currencies suffer at the hands speculative investment.

"There is an element of truth about the prime minister's comments about socialism through the backdoor," he said yesterday. "With a single currency you wipe the currency market out and with a strong regional policy you have something more akin to socialism."

BRITAIN IN BRIEF



Banks to loan £2.1bn for tunnel

International banks are expected to sign new £2.1bn loans agreement with Eurotunnel, the Anglo French Channel tunnel group, in London and Paris on Thursday.

The cash is needed to complete the project which has risen in cost from an original estimate of £4.8bn to more than £7.5bn.

Agreement with the banks, some of which initially were reluctant to support the refinancing, will trigger a £530m rights issue. The prospectus for the issue is due to be published in the first half of November.

BA to raise domestic fares

British Airways domestic fares are set to rise by 5 per cent from next month because of the Gulf crisis.

BA has applied to the Civil Aviation Authority for permission to introduce the increase on November 12. The airline plans to seek an increase in international fares at a later date.

The domestic rise, if granted, will mean the cost of a BA one-way super shuttle executive ticket from London to Edinburgh or Glasgow rising to £97.

Stakes of integration

Countries such as Britain with a labour market model which falls between corporatism and full deregulation have the most to gain from integration with other economies within the *Single European Market*, according to a study.

The study of labour markets in Europe by the macroeconomic policy group of the Centre for European Policy Studies, suggests corporatist countries such as Norway and Sweden, or deregulated countries such as the United States, gain less from additional trade competition than European countries "in the inferior middle ground".

The study comes amid debate over whether Britain's entry to the Exchange Rate Mechanism will moderate wages rather than force higher unemployment.

Insurance pool for aviation

Nine British insurance companies are pooling their resources to create one of the world's largest aviation underwriting operations.

The joint venture, called British Aviation Insurance Group (BAIG), will be based at the Institute of London Underwriters Building. It has a projected premium income of more than £115m this year and will start underwriting risks from January 1 next year.

EC scrutinises Irish claims

The EC Court of Auditors is reported to be investigating "very serious irregularities" surrounding the way in which some Irish food producers have claimed refunds under the EC's system of export credits.

A preliminary auditors' report alleges that in some cases cheese, and other dairy products, were found to be contaminated with insects and dangerous micro-organisims.

Even though the shipments of these products were rejected, the Irish producers concerned still claimed EC export refunds, says the report.

Arson bureau established

The Home Secretary Mr David Waddington will be writing to the Association of British Insurers to finalise arrangements for a new National Arson Prevention Bureau.

David Waddington

The government is to fund the bureau's annual budget of between £140,000 - £150,000 jointly with insurers.

The new organisation is expected to be formally constituted early next year. Its priority would be to improve the ability of firefighters to identify arson fires at an early stage.

Losses due to arson fires are estimated at a £1m a day by the ABI.

Call for elected city mayors

Mr Michael Heseltine, the architect of Britain's present urban development policies, wants directly elected mayors along the lines of the US, to solve the country's continuing crisis in the cities.

Mr Heseltine believes that running Britain's cities has to be "incentivised". He wants elected mayors or city bosses to bargain for funds directly with Whitehall and government ministers.

No loans for violators urged

The European Bank for Reconstruction and Development (EBRD) must freeze loans to governments and companies that fail to meet environmental standards, according to a World Wildlife Fund for Nature report.

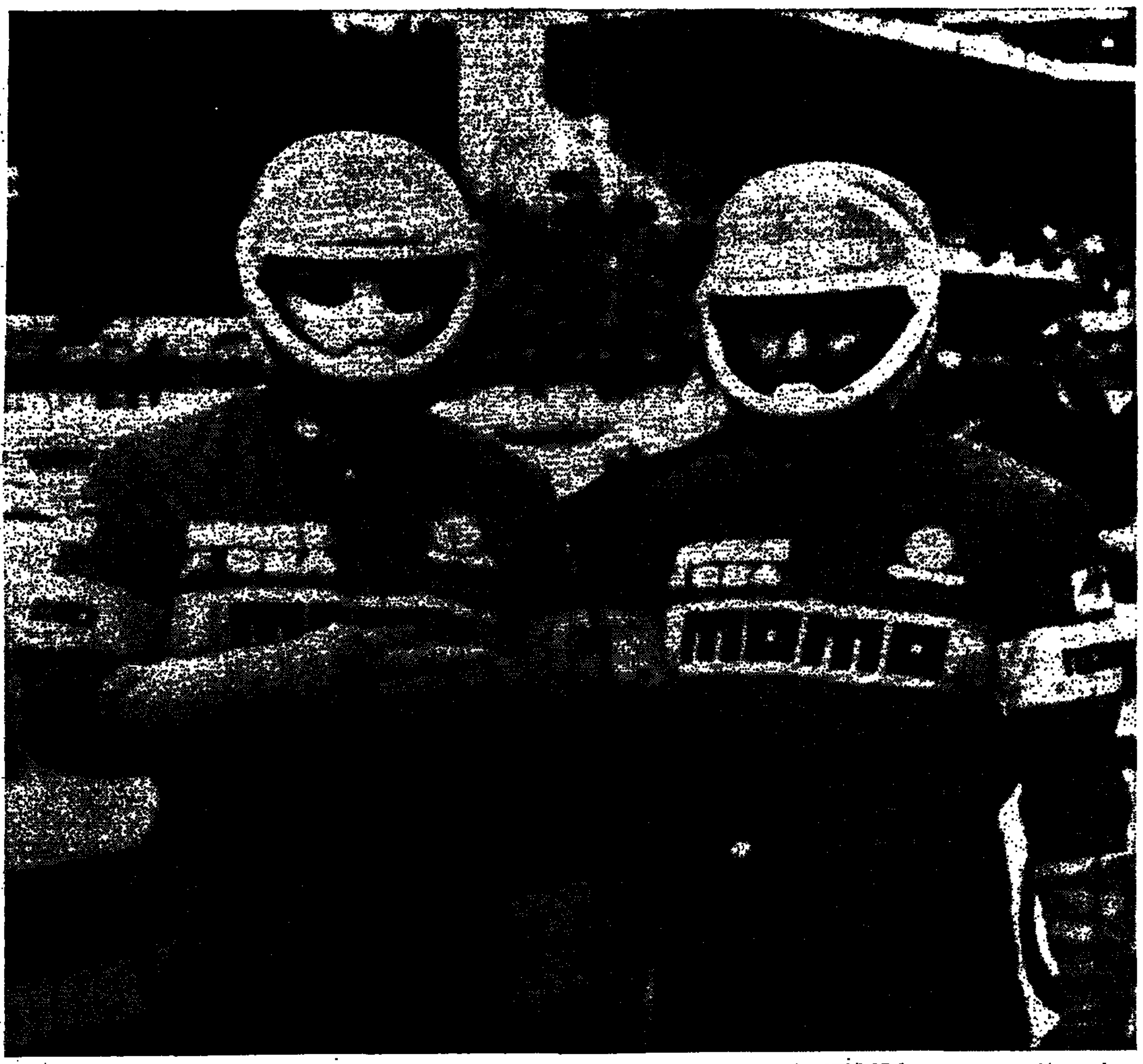
It was one of 19 recommendations to ensure that the bank fulfils its mandate to promote environmentally sound private sector growth in central and eastern Europe. It said the bank should help governments in the region to put environmental legislation in place and penalise them if they are slow to do so.

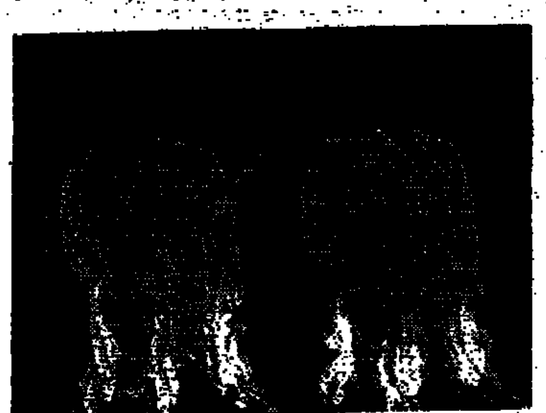
Kevlar* and Nomex*: Helping to increase motor racing safety.

It's quite normal for Formula One racing cars and even rally cars to reach 200 km/h and sometimes well over 300 km/h. Clearly, the smallest technical defect or driver error at such speeds can have serious consequences, which makes driver protection and safety crucial.
Racing drivers know this. They wear helmets reinforced with KEVLAR and protective overalls made from flame-resistant NOMEX III.
Such precautions have already saved many a driver's life. Press reports suggest, for example, that this is the case with former world champion driver Niki Lauda, as well as Nelson Piquet and Gerhard Berger.

Nomex III – The superior flame-resistant formulation

In motor racing, spectacular accidents are, unfortunately, all too frequent. And if a car catches fire, a few seconds can make the difference between life and death.
A protective garment made from NOMEX III can save a life in this sudden, critical situation. This heat- and flame-resistant fabric provides protection against fire for an exceptionally long period.
NOMEX III is a blend of NOMEX meta-aramid and KEVLAR para-aramid developed by Du Pont. It has proven advantages over other heat- and flame-resistant textiles. This is mainly because the woven material does not break open even when exposed to flame, so that the skin is not directly exposed to the fire.
Du Pont has subjected NOMEX III to numerous tests which confirm its exceptional protective properties. A special manikin developed by Du Pont, known as the "Thermo-man*", is one of these. It is 1.85 metres tall and has 122 sensors distributed over its entire surface to register temperature, quantifying pain thresholds and the critical point when burns first occur. The results have provided invaluable information for the development of safer protective clothing.





NOMEX III under test on the "Thermo-man"

Critical protective clothing applications.

Firemen, policemen and industrial workers can all find themselves in potentially dangerous situations. Garments of NOMEX III can be developed to provide the degree of protection required for different risk situations. And with a special advantage: material made from this patented fibre blend is as much as 40% lighter than flame-retardant cotton for the same protective performance. In addition, NOMEX III is resistant to most chemicals and does not melt.
What's more, a protective garment made from NOMEX III is a good investment for another reason – its protective properties are permanent, even after long periods of wear and repeated washing. It will last about six times as long as a garment of flame-retardant cotton.

Italian firemen wear clothing of NOMEX III

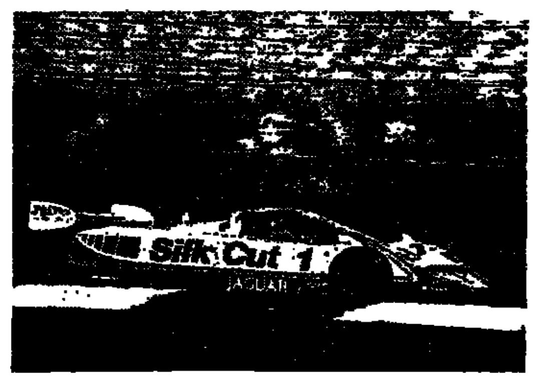
This is why public authorities and organisations are relying increasingly on clothing made from NOMEX III. In the U.K. the majority of professional firemen are equipped with NOMEX III. So are an increasing number in Germany. In Italy, all 25,000 members of the national fire service are equipped with protective garments made from NOMEX III.

World rally champion with Kevlar.

KEVLAR makes many contributions to the increased safety of motor racing. For example, it is used to reinforce helmets, car body components and tyres.
A burst tyre at high speed is a nightmare for any driver. Hours of driving combined with repeated heavy braking subject tyres to exceptionally heavy loads.
Leading tyre manufacturers have therefore adopted KEVLAR to reinforce their high-speed and other speciality tyres. Tyres reinforced with KEVLAR have numerous advantages: they are lighter, develop less heat and withstand greater loads.
Michelin, Pirelli and Dunlop have been using KEVLAR for some years with considerable success: most rally world championships in the past ten years as well as the 1987, 1988 and 1989 Group C World Championships were won on tyres reinforced with KEVLAR.
The average motorist also benefits from KEVLAR. *Not only in tyres, but also in brake pads,* clutch linings, cylinder head gaskets and cooling system hoses, KEVLAR enhances safety and reliability.

Kevlar "Hx" Series – The second generation.

Several years ago, KEVLAR pioneered a new era in fibre technology. Never before had there been a fibre with so many outstanding qualities. KEVLAR is light, strong, corrosion-*proof, heat resistant, self-extinguishing,* non-magnetic and electrically non-conductive. And it retains all its useful properties from −40 °C to +180 °C.
Du Pont is now once again setting standards in fibre technology with the KEVLAR "Hx" Series, which achieves significant performance improvements for specific applications. KEVLAR "Ht" has, for example, higher tensile strength; KEVLAR "Hm" a higher modulus of elasticity; and KEVLAR "Ha" greater adhesion. KEVLAR "Hc" is available in other colours as well as the original yellow, while KEVLAR "Hp" is ideal for optimising performance of sports equipment.



Groupe C – Worldcups 1987 and 1988 for Jaguar – and therefore, for Dunlop tyres reinforced with KEVLAR as well

Innovative technology means progress.

KEVLAR and NOMEX are produced by the Engineering Fiber Systems division of *Du Pont, which also developed TEFLON*,* TYVEK*, TYPAR*, CORDURA* and high-strength Nylon.
From house and home to air and space, these products have opened up new perspectives.
Du Pont is one of the world's leading research-oriented companies, and currently employs more than 17,000 people in Europe alone.

Du Pont de Nemours International S.A.
Engineering Fiber Systems, P.O. Box 50,
CH-1218 Geneva, Switzerland
Du Pont Engineering Fiber Systems.
Develop with us.

*Du Pont's registered trademark.

DU PONT

Strong pound threatens to cut UK competitiveness

By Peter Marsh, Economics Staff

BRITAIN'S exporters may be moving into a period of reduced competitiveness as a result of the strong pound, the Confederation of British Industry said yesterday.

The CBI, the employers' organisation – which represents many of the country's biggest exporters – said there were "clouds on the horizon" for many of these companies, in spite of yesterday's trade figures, which showed that exports in September held up well compared with August.

Exports last month totalled a seasonally adjusted £8.8bn, up 2.5 per cent on August's £8.6bn. In combination with a 1.5 per cent decline in imports between the two months, the high export figure narrowed Britain's current account deficit for September to £850m, the lowest monthly total since December last year.

Sterling's high value in recent months has increased the value of Britain's exports but has harmed the competitiveness of many British companies compared with overseas rivals. That trend has begun to show up in figures for the volume, rather than the value, of goods sold overseas.

On a seasonally adjusted basis – and excluding oil and high-priced items such as aircraft – export volumes fell by 1 per cent in the three months to September compared with the previous quarter. The volume figure for the past three months was, however, up 8 per cent on 1989 figures.

According to Mr Sudhir Junankar, head of economic trends at the CBI, some UK companies are switching resources to export markets in response to the depressed conditions of the domestic economy. This has been true for sectors such as cars, consumer goods and chemicals, all of which have pushed up exports in the past three months compared with the position a year ago.

In the longer term, however, many analysts doubt the degree to which such businesses can continue increasing exports while the pound is pegged to what many believe is a high central rate within the European exchange rate mechanism of DM2.95.

Mr Avinash Persaud, an economist at UBS Phillips & Drew, said that a snapshot view of exports over the past month gave a flattering view of the underlying forces in the UK economy. "The (exports) position could easily worsen by this time next year," he said.

● THE UK economy is in the middle of a recession in growth, according to the indicators which chart movements over the business cycle. The Central Statistical Office said that all its four indices of cyclical movements had been declining for some time.

The indicators are now showing a consistent recessionary trend and are consequently being taken more seriously by economists. They were ignored in the past for erratic and misleading signals.

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CURRENT ACCOUNT (£bn)

	Current Balance	Visible Trade Balance	Visible Trade Exports	Visible Trade Imports	Invisibles Balance
1988	-15.2	-21.1	80.8	101.9	+5.9
1989	-19.1	-23.8	92.8	116.6	+4.7
1990					
Qtr 1	-4.6	-6.8	25.4	31.2	+1.2
Qtr 2	-5.1	-5.2	26.1	31.3	+0.1
Qtr 3	-3.8	-3.8	25.6	29.4	0.0
Jun	-1.6	-1.6	8.6	10.2	0.0
Jul	-1.8	-1.8	8.3	10.0	0.0
Aug	-1.2	-1.2	8.6	9.8	0.0
Sep	-0.8	-0.8	8.8	9.6	0.0

Invisibles for July to September are projections
Figures are seasonally adjusted, and may not add up due to rounding

Source: CSO

Travel group plans joint venture with Japanese leisure concern

By David Churchill, Leisure Industries Correspondent

THOMAS Cook, the UK travel group which is part of Midland Bank, yesterday agreed to a joint venture with the Japanese leisure conglomerate Saison Group to set up a chain of travel agencies in Japan.

The agreement could see at least 53 Saison Thomas Cook offices being opened up in Saison's department stores throughout Japan.

Mr Peter Middleton, Thomas Cook's chief executive, declined yesterday to disclose the cost of the investment. He said that Thomas Cook might increase its minority stake in the venture as it developed.

Mr Middleton said the joint venture was "part of our strategy of developing a global network of travel operations".

The company has been researching the Japanese market for the past 15 months and has been in negotiations with Saison for the past six.

One problem was Saison's joint ownership of the Inter-Continental hotel chain with Scandinavian Airline Systems.

Thomas Cook was anxious to ensure that any travel operation bearing its name was not linked to any hotel or airline. "We wanted to be sure that the new venture was in the same position to give independent advice as other Thomas Cook outlets," Mr Middleton said.

The new chain is expected to begin operating in Japan in April next year.

Thomas Cook, which had a turnover last year of £10bn, already has a presence in more than 120 countries. However, it is now expected to develop its network of offices in continental Europe.

MoD points to fruits of success in Awacs deal

By David White, Defence Correspondent

THE MINISTRY of Defence yesterday claimed success for its controversial offset programme linked to the purchase of Awacs radar aircraft from Boeing of the US.

Work placed with British companies under the deal had passed the $1bn mark less than half-way through the eight-year span of the programme, it announced.

A target total of $1.5bn in high-technology offset contracts was agreed after the UK opted for the Boeing aircraft and ditched the British-developed Nimrod early-warning system almost four years ago.

The US group clinched the deal after lifting its offset offer from 100 per cent to 130 per cent of the value of the sale.

The prospect of its fulfilling its promise has since been called into question – especially its forecast that the work would provide 40,000 job-years to British industry in the first five years.

In response to criticism from the cross-party Commons Defence Committee, the MoD said last year it would start monitoring the impact of the programme on jobs.

Boeing emphasised yesterday that the employment forecast was not part of the contract. Under the agreement, Boeing submits on a six-monthly basis a list of contracts it has signed, and the MoD decides which of them to approve as offsets.

The $1bn figure refers to the period from late 1986 to the end of last year. Boeing said a further $272m worth which it had submitted for the same period was awaiting a final decision.

A percentage of follow-on contracts for deals concluded before the Awacs agreement can be counted as part of the offsets. This includes supplies of Rolls-Royce engines for Boeing aircraft. Critics of the agreement argue that this is work that British companies would have received anyway.

The Awacs aircraft are a militarised version of the Boeing 707 airliner, the E-3 Sentry.

Chink of light in siege mentality

Jimmy Burns in Ulster talks to the Protestants and assesses their new willingness to compromise

A FEW yards from an army barracks in a sidestreet close to the walls of Londonderry, Northern Ireland's second city, there is a Gothic-style mansion. It has been home for more than a century to the Apprentice Boys Association, one of Ulster's most "loyal orders".

Inside, one confronts the extent to which a community's sense of identity can be imprisoned by history. In a panelled room hung with the sombre portraits of past general secretaries, there is a plaque dedicated to the 13 apprentice boys who shut the gates of Londonderry on the army of the Roman Catholic King James II in 1689. The raising of the subsequent siege led to the defeat of James at the Battle of the Boyne.

The plaque proclaims: "May their heroic deed and battle cry of 'No surrender' stimulate each successive generation with fervency and zeal to uphold the crimson banner, the emblem of our unconquered city..."

In more recent times the slogan 'No Surrender' has been invoked by Loyalist protestants when confronted by the slightest indication that their hold on power might be undermined by Whitehall or Dublin.

Arguably, no other sentiment has done more to provoke the wrath of catholics, and to undermine British government attempts at dialogue.

Yet within the protestant community at large, the emotional charge of history has lost some of its force in the midst of contemporary political and social realities.

Mr Derek Miller, the current general secretary of the Apprentice Boys Association, roams around the ancient battlements with a funereal air which contrasts starkly with the bubbling optimism of some of the catholic inhabitants of Londonderry.

"Twenty years ago there were 25,000 protestants living on this side of the city. Now there are less than 7,000 and they are still moving out," he says.

Many protestants left Londonderry in the 1970s at the height of sectarian violence and they have continued to leave in a small but continuous trickle since then.

Mr Miller regrets the extent to which the catholics appear to have monopolised everything from urban regeneration to the local football team which now plays in the Southern Irish league.

When pressed, Mr Miller becomes less apocalyptic and rather more conciliatory. There is, he says, sufficient "goodwill among moderate nationalist people" in town, for protestants like himself to consider moving back.

Talks are under way between local protestant leaders, private investors and the government, to see if protestants can have a greater share in the urban regeneration which is being channelled largely through catholic community leaders.

Even conciliatory Unionists, however, remain vehemently opposed to the precursor to the Brooke initiative – the Anglo-Irish agreement – which they believe gave Dublin excessive influence in the affairs of the province.

Those protestants who have chosen to remain close to the catholic community in Londonderry live in a drab council estate a few hundreds yards along the city walls called The Fountain. The community remains, as it has for the past 20 years, encased behind an iron gate which is closed at night and a fence blocking off all views of the Bogside.

Yet the siege mentality appears to be more apparent than real. In spite of the graffiti painted by the paramilitary loyalist Ulster Volunteer Force and the crimson flag flying above one of the wall's turrets, inhabitants are not as closed in upon themselves as they once were, although there remains a pervading fear and loathing of the IRA.

Ms Isa Porter was born into a family of B-Specials, the protestant police force that was disbanded after being held responsible for brutality against catholics.

She remembers watching stones and petrol bombs being thrown into the Fountain by catholic youths. Today, she shops in the city centre alongside catholics, and takes holidays in southern Ireland.

"The catholics are as friendly as ever with me," she says, noting that the community still feels it needs the protection of the security forces against the IRA.

Within the loyalist tribal lands of Belfast, as in Londonderry's Fountain estate, the tough talk and their symbols are never far away.

The Shankill Historical Society makes no pretence of where its priorities lie. In its shop window, there are banners proclaiming "Proud to be a Prod" and UVF emblems and uniforms. But the combination of urban redevelopment and the economic pressures of high unemployment and the need for more housing appears to be transcending religious prejudice and historical identity.

In Belfast, Mr Ken Hagan remembers physically attacking catholics in the early days of the troubles. The man he shares an office with, Mr Augustus "Gusty" Spence, was released from prison in 1984 after serving 18 years of a life sentence in connection with the shooting of a catholic barman.

Mr Hagan and Mr Spence claim to be very different from the men they once were. They run the Shankill Activity Centre, where volunteers try to reconcile warring communities through the use of "mixed workshops".

The volunteers include catholics from the nearby Falls Road area who still have to negotiate a tortuous route around the walls and steel palisades which separate the communities.

Mr Hagan says: "Politicians have been getting us nowhere so we have to organise at community level...Paisley doesn't speak for me. He doesn't want to look at change."

Mr Jackie Redpath, a publisher of the Shankill Road newsletter and a director of the local development agency, believes that there is a "great desire" among ordinary people "to have quite simply a decent quality of life". By this they mean work, a decent house, and "peace to carry on their normal lives".

And yet Mr Redpath did not quite share in the optimism that is to be found at the Shankill Activity Centre.

He warns: "There is a great weariness here. The desire for peace is not the result of great energy flowing but of a sense of hopelessness."

Out of step: the mood among protestants suggests loyalist bands may be clashing with a spirit of conciliation

FT LAW REPORTS

Owners can withdraw vessel

HYUNDAI MERCHANT MARINE COMPANY LTD v GESURI CHARTERING COMPANY LTD

Court of Appeal (Lord Justice Slade, Lord Justice Balcombe and Lord Justice Bingham): October 16 1990

A TIME-CHARTERER'S "further option to complete last voyage" outside the final terminal date specified in a Nype charter party, applies only to protect charterers from liability for delayed redelivery through no fault of their own, when they have given orders for a legitimate last voyage which could reasonably have been expected to be performed in time. Owners are therefore entitled to withdraw the vessel if charterers, in breach of contract, give orders for an illegitimate last voyage under which *she could not, at earliest, be* redelivered within the charter period.

The Court of Appeal so held when dismissing an appeal by Gesuri Chartering Co Ltd, charterers of the Peonia, from Mr Justice Saville's judgment that the owners, Hyundai Merchant Marine Co Ltd, were entitled to refuse to comply with voyage orders.

LORD JUSTICE BINGHAM *said that* by a charterparty on the New York Produce Exchange (Nype) form dated April 3 1987, Hyundai as disponent owners, chartered Peonia to Gesuri.

By line 14 of the charterparty owners agreed to let, and charterers agreed to hire from time of delivery for "about minimum 10 months maximum 12 months times charter, exact duration in charterers' option". By line 15 *charterers had a* "further option to complete last voyage within below mentioned trading limits".

On facts assumed to be true for the purposes of the arbitration, the vessel was delivered to the charterers on June 11 1987. Thus the 10 month period expired on April 11 1988 and the 12 month period on June 11. On May 6 1988 the charterers concluded a voyage subcharter from the River Plate to Singapore and Butterworth. Had that fixture been performed, the vessel would have been redelivered to owners no earlier than about July 19 1988.

On May 11 the owners protested, contending that the proposed voyage was illegitimate. They asked for voyage orders which would enable the vessel *to be redelivered by June 25*, thereby giving effect to "about" in line 14. On May 17 they called for voyage orders which would enable the vessel to be redelivered within the charter period, or alternatively for payment of hire at an enhanced rate for the duration of the voyage outside the charter period.

The charterers accepted neither condition and the vessel was withdrawn by the owners.

Arbitrators jointly declared that under the charterparty the charterers were entitled to order the vessel to undertake a last voyage that started before the latest time for redelivery, June 11, as extended by any tolerance to be implied by "about". On the assumed facts the charterers were therefore entitled to give the orders they did.

Mr Justice Saville allowed an appeal and varied the award to declare that on the true construction of the charterparty the charterers were not entitled to order the vessel to perform a voyage which could not reasonably be anticipated to be completed before about June 11, and that the owners were entitled to refuse to comply with any such order.

The charterers now sought to reinstate the arbitrators' decision.

Where a time charterparty stipulated a definite date for termination of the charter period without express margin or tolerance, the courts implied a reasonable margin or tolerance to allow for the exigencies of maritime business. Where margin or tolerance was expressly agreed, such implication would not be made.

The nature of a time charter was that the charter was a for a finite period, and when the final terminal date arrived the charterer was contractually bound (in the absence of exonerating cause) to redeliver the vessel to the owner.

The cases and books drew a distinction between the "illegitimate last voyage" and the "legitimate last voyage".

In the former case the charterer gave an order for employment of the vessel which could not reasonably be expected to be performed by final terminal date. It was an order he was not entitled to give, and in giving it he committed a breach of contract. The owner need not comply, but if he did he was entitled to payment of hire at charterparty rate until redelivery of the vessel, and to damages (being the difference between charter rate and market rate if the market rate was higher) for the period between final terminal date and redelivery.

In the case of the legitimate last voyage the charterer gave orders for employment of the vessel which could reasonably be expected to be performed by final terminal date. Those were orders he was entitled to give, and so were legitimate.

But what if the orders for the last voyage were legitimate in that sense, but the charterer failed to redeliver by final terminal date for reasons (such as bad weather) for which neither party was responsible?

The owners construed "further option" in line 15 of the charterparty as protecting the charterers against the ordinary *consequences of breach of contract* if they should fail to redeliver by final terminal date on a legitimate last voyage. The charterers argued that "further option" in line 15, entitled them to order performance of what, but for this provision, would be an illegitimate last voyage, with no liability beyond a liability to pay hire at charter rate until time of actual redelivery, notwithstanding *that the voyage had* extended beyond final terminal date as it was reasonably expected by the parties to do.

If one tested the differing answers against the rules applied in English law to contracts generally, it seemed that the owners' answer to be preferred. A party either did what he had agreed to do by the time he agreed to do it, or he breached the contract and paid *the consequences in damages.*

In the *London Explorer [1972] AC 1* the majority held that if a charterer failed to redeliver within a period of reasonable extension, he might be in breach and so liable for damages for the period from final terminal date to time of actual redelivery.

In the *Dione [1975] 1 Lloyd's Rep 115*, on an issue as to whether "6 months 20 days more or less in charterers' option" provided a final terminal date, the majority held that it did, leaving no room for implied margin or allowance. On an issue as to whether charterers were in breach in sending the vessel on an illegitimate last voyage, Lord Denning concluded it was illegitimate for the charterers to send her on the voyage, "seeing that they could not reasonably expect the vessel to complete it by the permitted margin".

That conclusion, though a minority view, seemed hard to challenge, given the majority conclusion on the first issue.

The majority decisions in the *Dione* and *The London Explorer* were authority binding on the court in support of the owners' argument. They also seemed to accord with general contractual principle.

In line 15 of the charterparty, in the absence of any contrary indication, "last voyage" was read as meaning "last voyage under the charterparty". The language of line 15 was not at all apt to convey the meaning for which the charterers contended.

What the charterers were really claiming was not an option to complete, since no one doubted that a voyage once begun must in any ordinary circumstances be completed. What they were really claiming was a right to require the owners not to complete but to embark on an illegitimate last voyage. That was by definition a last voyage which was not under the charterparty but outside it. Line 15 was not very apt to express the owners' suggested meaning either. They said line 15 gave the charterers a right to complete a legitimate last voyage at charter rate free of liability for damages, in respect of the period between final terminal date and redelivery.

While neither construction was satisfactory, the less unsatisfactory of the two was the owners'. Line 15 gave the charterers the right, additional to the right in line 14, to require the owners to complete a legitimate last voyage free of liability in damages in respect of the period between final terminal date and redelivery, at any rate unless the unexpected delay was caused by charterers' breach of contract.

Mr Justice Saville's conclusion was correct. The appeal was dismissed. Their Lordships agreed.

For the Shipowners: Bernard Rix QC and Bernard Eder QC (Sinclair Roche & Temperley). For the Charterers: Angus Glennie (Shaw & Croft).

Rachel Davies
Barrister

Problems of expansion

When the eye is taken off the market focus

Charles Batchelor explains why diversification can look attractive but prove to undermine core activities

Progress International, the office furniture installation business set up in 1983 by Darryl and Gregory Wong, had been in business for just a year when the two brothers decided to branch out.

In quick succession they set up a van-hire business and opened a shop selling orthopaedic furniture. Both businesses were spin-offs from their core activity and the brothers were keen to spread their risks.

It was not long, however, before the Wongs became painfully aware of the costs associated with their attempts to diversify. Turnover of the core business stagnated; the company's limited financial resources were strained; and the two brothers found they were devoting at least 50 per cent of their time to activities which accounted at most for 20 per cent of turnover.

"We didn't realise what the drain on our time and on our working capital would be," says Darryl Wong, chairman and joint managing director of the south-east London-based company. "It was a bad judgment."

On the advice of Greater London Enterprise, a smaller firms investment and training organisation which was originally attracted by the idea of investing in the orthopaedic furniture business, the Wongs decided to concentrate their resources on the office furniture installation activities and the other two businesses were wound up in 1988.

After two years of losses Progress has returned to profit, opened five new offices around the UK and is thinking of expanding into continental Europe. Turnover stuck at around £1m during the mid-1980s but is expected to rise from £2.5m to £3m in the year ending June 1991.

The over-ambitious diversification campaigns by large multinational companies have been the focus of much attention in recent times and the aggressive acquisition programmes of the early 1980s have been replaced by a return to core activities.

But, as the Progress experience shows, small companies may be no less prone to over-ambitious digressions from their core activities than large. Larger quoted companies may be more likely to diversify by acquisition while small firms will start up new activities from scratch but the results are often the same. The small firms' lack of financial and managerial resources does, however, make them especially vulnerable.

Part of the problem facing the Wongs was that they were unsure of just how fast the market for their services would grow. But as office furniture systems have increased in sophistication and cost, manufacturers and project managers have shown themselves increasingly ready to employ specialist installers.

Fashion jewellery, by contrast, was a well-established sector when Jasbir Anand set up in business in London's Soho in 1975. Yet market focus has been an issue which has had to be addressed by Anand Fashion Jewellery on its way to its current turnover level of £1.65m.

Anand started with a small shop acting as a wholesaler to London jewellery stores. Trade buyers would walk in off the street to buy six or a dozen pieces of a particular item of fashion jewellery. When business prospered and working conditions became cramped, Anand bought the freehold of a 7,000 square feet warehouse in Wembley, west London.

Jasbir Anand sent his son Ravinder to run the growing import business carried out from the Wembley warehouse while he stayed to run the Soho shop. But running what was still a very small business from two locations put intolerable pressures on the two-man management.

From just being a wholesaler Anand became a large importer of fashion jewellery from the Far East. Increasingly it was doing business with large retailers who would place orders for 100 or 200 dozen pieces. It had to decide whether to remain with the small customers with which it had begun or to move upscale to handle the large buyers.

The two Anands sat down one Saturday morning 18 months ago to discuss strategy with their accountant, Subhash Thakrar, a partner in the firm of Blackstone Franks. They decided to sell the Soho shop to concentrate on serving the larger customers who visited the warehouse. "The warehouse is big business while the shop was small business," comments Jasbir Anand.

Further advantages of this move were a reduction in overhead costs – staff numbers fell from 10 to seven – and the concentration of all the employees in one location where Jasbir Anand, who was better at managing people than his son, could oversee the whole operation. The switch from small customers, who paid cash, to large stores, which demand credit terms, has, however, put pressure on cash flow, Anand says.

Having identified the larger stores as his main market, Jasbir Anand has acquired a factory in nearby Acton where warehouse space will be rented to other fashion jewellery wholesalers. The aim is to create a centre which should attract more jewellery buyers than the individual firms could on their own.

For G Ettinger, a 50-year old leather goods manufacturer, market focus became a matter of survival in a declining sector. Competition from low-cost producers in the Far East and from more upmarket manufacturers in Spain and Italy has wiped out many UK leather goods companies in recent years, says Paul Ettinger, a director.

Over the years the company had broadened its range of products until it stocked giftware items made of metal and plastics as well as housewares alongside its traditional leather products. It was no longer perceived by department store buyers as a specialist leather goods company, recalls Ettinger.

Darryl and Gregory Wong: returned to profit

At the same time many of the small retailers which made up its traditional customer base were closing. To survive, G Ettinger had to concentrate on the top end of the market and on the bigger stores.

"First of all we had to focus the business," says Ettinger, who joined his father and brother in the family firm two years ago after gaining an MBA at INSEAD, a French business school, and three years spent marketing marine paints for Courtaulds, the chemicals group.

"That sounds glib but the traditional market was dying and we had to go somewhere. We had to cut out the knick-knacks. The buyers were becoming very specialised and were starting to see us as general merchants."

Slimming down the company's product range was a difficult decision for Gerry Ettinger, the 70-year old chairman, but the cheaper items were gradually eliminated to concentrate on the more up-market leather goods. Most of the smaller customers who made big demands on the company's administration but only placed small orders took their own decision to move to other suppliers. Like Anand, G Ettinger also moved out of the centre of London to more roomy premises in Putney.

The next step was to start designing ranges exclusive to G Ettinger to give the company an edge over its up-market rivals. One of the firm's most successful ranges has been a burnished calf collection based on traditional British designs for items such as brush and manicure sets and flasks in shoulder cases, says Paul Ettinger, who has concentrated on design. Increasingly the company, which employs 19 people full-time and up to 30 outworkers, makes to order, he adds.

The impact of these moves has been a 20 to 25 per cent annual increase in turnover over the past three years to a total of more than £1m this year.

The experience of Progress, Anand and G Ettinger shows that by concentrating on a core business, a company can reap the benefits of its expertise in a particular market niche. "We haven't reached our peak in the furniture installation business," says Gregory Wong. "We would be very cautious about diversifying in future."

The start of a dialogue

Charles Batchelor on the small firms minister's plans

There appears to be little imminent prospect of major new programmes to back small businesses, according to Eric Forth, small firms' minister at the Department of Employment.

"I do not regard the number of initiatives I dream up as proof of my ministerial effectiveness," Forth told a press briefing during a one-day conference, "Keys to Growth," in London last week. Forth replaced Tim Eggar as small firms' minister in the ministerial reshuffle of last July.

The conference, billed as allowing owner-managers to discuss issues they saw as important to success, was intended as the start of a dialogue between entrepreneurs, small business advisers and government, Forth said.

"The messages from the conference will be used for the development of small firms policy and to provide important advice for other small businesses," Forth commented.

Some of those involved in the small business sector have, however, expressed concern that nothing is being done to help the many small businesses which were set up during the 1980s but which are now being adversely affected by high interest rates.


Eric Forth: not convinced

Starting up in business involved risk and "an element of possible business failure," Forth told journalists. "The rate of business start-ups has been remarkably well sustained," he added.

If people were prepared to accept higher taxes then more money could be provided for small business, Forth said. He did suggest, however, that there might be funding for sharply-focused programmes such as SMART (the Small Firms' Merit Awards for Research and Technology).

One idea promoted by the British Venture Capital Association – for government subsidies to help finance the management of new seed capital funds – appears to be making little progress. "I want more evidence of the need for government help for seed financing," Forth said. "I am not convinced there is a lack of finance for small businesses."

Areas which Forth believes do warrant further study are the scope for encouraging small business owners to sell equity in their companies in preference to raising loans and the possibility of encouraging private individuals to invest in small businesses.

One "very tentative idea" was for the government to back the creation of a marriage-broking service for investors and entrepreneurs. But Forth said he was keen to avoid introducing "the dead hand of government."

Getting everything taped

Charles Batchelor reports on some video and audio training aids

How to make business training more easily available and more attractive to the overworked small business owner? Many entrepreneurs lack the time to attend scheduled training sessions or if they do have the time, are resistant to the "talk and chalk" teaching approach.

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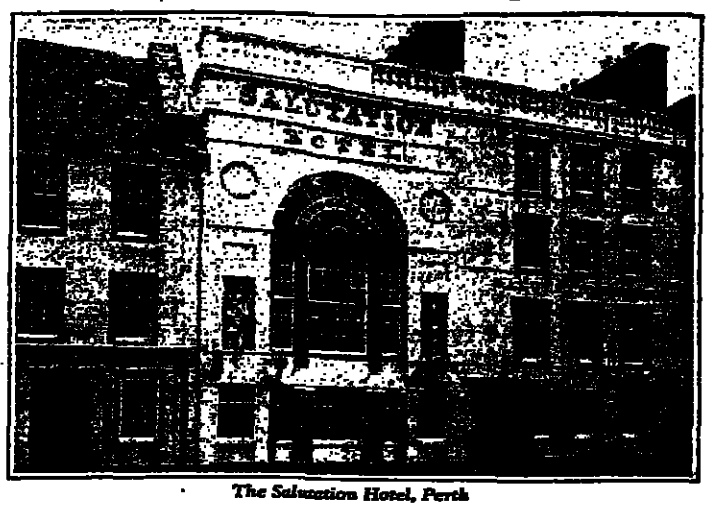

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THE SCHEDULE

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Anthony R. Celeschella
Secretary

COURSES

ARTS

Elliott Carter's new trio

ALICE TULLY HALL, NEW YORK

Although Elliott Carter lives in New York and would in any international poll probably be acclaimed as the world's greatest living composer, his native city does him little honour. No local performance of his latest big work, the Violin Concerto, has been billed yet. First heard in San Francisco in May, it will soon have been heard all over Europe (in London in February), but not in New York. And the New York Philharmonic plays him very seldom.

But the chamber pieces do get done, and the latest of them, *Con Leggerezza Pensosa*, reached New York soon after its Italian première. It's a five-minute trio, for clarinet, violin, and cello. The subtitle is "Omaggio a Italo Calvino," and the piece was commissioned by the Institute for Musical Studies at Latina, Italy, for performance at the presentation of a prize, honouring Calvino, for the best musicological paper of the year.

Calvino was a writer playful and penetrating, elegant and erudite, and Carter's "With Thoughtful Lightness" reflects him. It is a captivating composition of grace, charm and integrity. The score is set out in 4/4, but clarinet, violin and cello play in a 3:4:5 metrical ratio that keeps things moving in a fluid, animated way. Each instrument, as ever in Carter, has its distinct personality, its distinctive interval preferences. From time to time chords build up and pseudo-canons start to emerge, but individuality takes over, and the discourse is riveting.

This is a successor to other "occasional" chamber pieces – *Riconoscenza* for solo violin, dedicated to Petrassi, *esprit rude/esprit doux* for flute and clarinet, dedicated to Boulez, and *Enchanted Preludes* for flute and cello, dedicated to Ann Santen – that have outlived the "occasion" to become standard contemporary repertory. And *Con Leggerezza Pensosa* will surely be joining them, for like them it recalls the remark of a Renaissance humanist admiring a powerful, perfectly fashioned bronze statuette: "Small to the eye but a giant to the mind."

The excellent New York players were Ida Kavafian (violin), David Shifrin (clarinet), and Fred Sherry (cello). Sherry, an avant-garde cellist, is the new artistic director of the Chamber Music Society of Lincoln Centre, and he has revivified what was becoming a moribund group (the Sight-treading Society of Lincoln Centre was its sobriquet). There were young people in his Alice Tully Hall audience.

Andrew Porter

Cheltenham Festival

The stars of the Cheltenham Festival of Literature were saved for the last few days. Thursday morning began with A.S.Byatt, her Booker award barely in the bank, sharing the platform with Marina Warner, a Booker nominee in her time, to discuss the finer meanings of "romance". Their discussion went as far into the matter as fairy stories, an early enthusiasm of both of them.

That evening came the Poet Laureate, Ted Hughes, who was billed to talk about Shakespeare; but he also traced the origins of the legend of *Venus and Adonis*, Shakespeare as we know it, Ovid too, but based on the typical "mis-match" of Adonis, who would rather hunt than woo the willing goddess. It sounded like the first half of a longer essay. The poems of another Poet Laureate, Cecil Day-Lewis, were read next day by Jill Balcon, with special understanding.

Also on Thursday came *Interference*, some fragments of modern Czech writing (translated) emphasising the endless occupation of what is now Czechoslovakia; and D.J.Enright's account of his preparation of the Oxford Books of This and That – next spring, Friendship. Friday began with a talk on war poetry by American Paul Fussell, which I found unexpectedly interesting for its non-British angle, though he dealt wisely with British poets. He included the Vietnam war as well as the World Wars.

On Friday afternoon, 'est, George MacDonald Fraser talked about Flashman. He claimed that Flashman's adventures depended on his having chanced on a suitable event capable of insertion into Flashman's calendar. After him, we had Dido Davies, biographer of the failed genius, William Gerhardie. One constantly resolves to read Gerhardie and somehow one never does. Miss Davies rekindled my resolve. Paul Foot, Friday evening, is a particular Cheltenham favourite, though he never fails to berate his audiences' ignorance. His invigorating talk explained how a belated reading of *Don Juan* had changed his view of Byron – not a potential old buffer but a potential revolutionary. He did not hear his uncle, Michael Foot – another Cheltenham star – next day on Hazlitt's *Liber Amoris*, linked with Stendhal and Heine, and with some words on Byron that might not have met with his nephew's agreement. He was put in mind of the *Liber Amoris* by Melvyn Bragg on the erotic in his novel *A Time to Dance* a talk that unfortunately I didn't hear.

Earlier on Saturday came an interesting talk by Margaret Drabble on the English characteristics in the English novel, even when written by writers named Naipaul, Mo or Ishiguro, though not Rushdie. And later, there was Seamus Heaney. Heaney is everyone's favourite, and an encouraging number of young people heard him read his poems. There was much enthusiasm. I can think of no other living poet who can raise as much – though I can think of some that should. Heaney was followed by Malcolm Bradbury and Peter Ansorge on the problems of producing Channel 4's *The Gravy Train*, a consciously European story sponsored by Europeans. One trouble is that Europe changes so much from day to day.

Sunday, the final day of the Festival, included a good talk by David Hare, whose play *Racing Demon* won this year's Olivier Award. He pointed out the public nature of the drama as opposed to the novel, so that a dramatist must not be afraid of looking silly if that is what his public decides. He was followed by John Mortimer, who read from various of his writings and pleased everyone except some ladies who complained that they never heard his punchlines.

I have not tried to tell about all the 60 items in this engaging Festival, just those that seemed to me to look interesting. Several of the players dropped in a tribute to Alan Hancox, the distinguished bookseller who has organised the function almost continually since 1980 but will retire this year. Or so he says.

B.A. Young

An admirable failure

William Packer reviews William Coldstream at the Tate Gallery

There is no doubt that William Coldstream, who died in 1987 shortly before his 79th birthday, had earned the distinction he now enjoys of a full retrospective exhibition at the Tate (until January 6: sponsored by British Steel). It comes neither too soon nor too late. As Lord Melbourne said of George Crabbe: "I am always glad when one of those fellows dies, for then I know I have the whole of him on my shelf", or the walls as the case may be.

Coldstream was much mourned and is now much memorialised, for he was the best of company. He was a great figure in the British Art World, Professor at the Slade School from 1949 until 1975, Trustee of the Tate, member of Advisory Committee this and Council that. The reform of the English Art Schools set in train by the +Coldstream Reports+ of 1960 and 1970 were perhaps more far-reaching than even he could have imagined, or wished.

In his time there can have been no one more generally influential than he, and if, in a very British way, that public importance is also taken to be a quality of the private artist, this present show is no less interesting for that. The only question is: does it leave us any the wiser? And the answer is probably no. How could a man so committed in principle to the personal integrity and private responsibilities of the artist, have had so powerful a voice in deciding the outline or direction of the public education of the artist? How was it that someone so assertive and positive in his influence could have been so modest, introspective, tentative and uncertain in himself as an artist? Coldstream himself would have been first to savour and remark the ambiguities, uncertainties and contradictions he has left hanging in the air.

The answer he might have admitted, if only to himself, is bleak enough in its resignation: that none of it really matters very much when set against the essential, impossible reality the artist inevitably addresses in his work. He once remarked to me that art education nowadays went on too long, that his three years at the Slade in the 1920s had been more than enough for him, that "the longer you remain a student, the longer you go on producing student work." It would always be better to face up to the reality of what had been taken on.

He certainly found it difficult enough himself, as this exhibition all too painfully bears out. He was never a naturally fluent painter with an instinctive feel for paint and colour, and what felicitous passages there are seem always to have been achieved in spite of himself. Every conscious mark was fought for and hard won, and it is a sad comment on the visual puritanism of the English art public, that such evident struggle and sheer hard work should so generally have been taken as the mark of a great gift. What was marked, if anything, was a kind of despair.

The chimera he set himself to chase was that of the accurate pictorial depiction of whatever he set up before him – model, still life, landscape. Everything was to be marked and registered, easel, chair and model's throne each in its fixed position and relation to the other, everything checked and measured, and checked again. But life goes on, things move and breathe and change, hour by hour, day by day. Nothing can be fixed, and even the most perfect model will never resume the pose in quite the same relation to the artist's eye. The flower blooms and the leaves drop. Paintings take time, and with every fresh registration of knee or breast or nose, the realisation is borne in on us, as on the artist himself, that there can be no end to it.

'Reclining Figure' 1980-81 by William Coldstream. Oil on canvas

The first and only previous major show of Coldstream's work was the retrospective sent around the country by the Arts Council in 1962. In the critical climate of that time, charged with the enthusiasm for abstract expressionism on the one hand and Pop-art on the other, his stance seemed radical and brave, his paintings the image of integrity and steady, conscientious pictorial achievement. I remember it well, but what I and so many others then took, by that contrast, for accuracy of perception and visual record, now for the most part seems thin and hesitant. Even those most apparently resolved and statuesque of his works, the Slade nudes of the 1950s, set in the simple theatrical space of the life room, give themselves away in detail everywhere left unconfirmed, indicated, altered and finally given up. Always the method, the obsessional measuring and checking, gets in the way, bringing the matter back not to an image free at last of its process, but one chained to it for ever.

But if Coldstream was in the end a failure, there is much to admire in that failure, including the desperate courage to stick at what he was too intelligent not to know was quite impossible an undertaking. Ever the prisoner of his method, there remains in that self-imposed regime the quality of an honourable imprisonment, and from time to time throughout his career we see him sub-consciously allowing himself his own parole. We know he will always go back, for he has given his word, but briefly we glimpse the true artist at large, forgetting himself for the moment in the immediate statement of the image. A couple of churches dark against the snow (1941 & 1947); a Bailey bridge in Italy (1944); Caroline Cuthbert (1963) in the earliest stages of the portrait process; two deceptively simple flower pieces (1931 & 1963) – such are the works of the painter Coldstream might have allowed himself to be, but for himself. Diary entry for 4.i.46: "My interest does not become engaged unless I make a conscious effort. Moreover in painting this means coming down to making laborious measurements. This is strained and 'unnatural' – yet it is – or has become – 'natural' for me to try. I have to make a business of anything I do."

Frans Brüggen

QUEEN ELIZABETH HALL

For the first concert of their South Bank season on Friday the Orchestra of the Age of Enlightenment was conducted by Frans Brüggen, and if any of their subsequent appearances comes close to matching its excitement and panache it will be a remarkable achievement indeed. Brüggen is an exceptional musician: an authenticist of impeccable pedigree, and an interpreter with the vision and belief to use the period-instrument aesthetic as a mere beginning rather than a re-creative end.

With both his own Orchestra of the 18th Century, and in guest appearances with the OAE, Brüggen obtains playing of unself-conscious virtuosity that takes the breath at every turn. Here, in Haydn's Clock Symphony (No 101 in D) and Beethoven's Seventh, the string articulation (a hefty band, founded upon four double basses) was invariably lucid, the woodwind playing (with principal flute and oboe outstanding) always phrased with supple intelligence. The trust in his players is implicit, with no sense of regimentation; players can be relied upon to be naturally expressive (just, one feels, as they must have been in Classical times) while the conductor takes care of the symphonic architecture.

The result is constantly surprising, constantly illuminating. Brüggen's epic view of Beethoven 7 has already been heard in London with the Orchestra of the 18th Century; the theatrical sense of an unfolding drama, the way of accommodating every detail so that it contributes organically to the overall structure, and the sheer physical presence of the sound – vivid brass, woodwind solos with an almost sculptural fullness – draw the listener into the performance in a way that very few other conductors could contemplate. A most unlikely comparison is with Carlos Kleiber; temperamentally and musically they may be utterly different, yet the results they obtain from orchestras are similarly balanced on the knife edge of what is technically and dramatically possible, and similarly compelling.

The Haydn symphony demonstrated that the same excitement can be drawn from a much more confined Classical score too. The plunge into the minor at the heart of the Andante produced the kind of frisson that 18th-century audiences must have drawn from it, while the Trio's rustic wind-band tune seemed like a real intrusion from another musical world rather than just a tame anecdotal effect. So Brüggen manages to have it both ways, able to return his audience to the sound world of the 18th century and to restore that period's expressive vocabulary, while retaining the intellectual rights of interpretation of a thoroughly 20th-century mind. It is a very special achievement; he merits a place in the highest rank of contemporary conductors, regardless of performing creed.

Andrew Clements

Les Troyens

ZURICH OPERA HOUSE

This is the third European production of Berlioz's great Virgilian music-drama in six months: not bad for a work which for more than a century was considered too exacting to stage. And with greater familiarity comes a deeper appreciation of its contours and overwhelming beauty. Zurich proves that *Les Troyens* is one of those rare operas whose unassailable greatness dwarfs whatever blemishes it suffers in performance – in this case some odd casting, a haphazard production and liberal cuts in the score.

The staging was by Tony Palmer, whose career in opera is rapidly gathering momentum on the continent. But *Les Troyens* lacked the imagination and concentrated impact he brought to the Zurich *Peter Grimes* last year. The visual framework (decor by Emanuel Pedrazzi, costumes by Jacques Schmidt) was traditional – an open stage, a vast blue backdrop framed by a few stone columns, and an elaborate, often exotic parade of gowns and robes. But instead of using this as the basis for some sharply-focused dramatic ideas, Palmer filled the evening with functional stage processions and sure-fire technical effects. The result was a grand operatic pageant, hopelessly stage-bound.

The Trojan horse, wheeled on in a cloud of dry ice, looked like a cheap classroom exhibit. There were hideous amplifications, including the horn solo in the Royal Hunt and Storm, the choral cries of "Italie" and a series of crowd noises which sounded like a relay from the theatre canteen. The Hunt itself, described in the programme book as a "wild sexual nightmare", was a mish-mash of couples chasing around the darkened stage, while laser lights flashed out into the auditorium. The banal Act 4 ballet, ending with a snake dance, could have fitted any number of 19th century French operas. The Sailor's Lament was presented with as much sense of context as an audition aria. Only the Hector scene – with shafts of blue and green light piercing the swirling gloom – succeeded in providing a creative response to the music.

Palmer evidently decided that three and a half hours of *Les Troyens* was enough – nearly an hour shorter than the Berlioz Festival production at Lyon in 1987. There is really no justification today – especially in a theatre used to regular Wagner performances – for anything shorter than full measure. Ralf Weikert conducted a stirring, surging account of the score – precise, eloquently phrased, with all the opulence that was lacking *on stage*. The chorus sang with lusty confidence.

The performance I heard was nearly cancelled due to the last-minute illness of the Dido, Ludmila Schemtschuk. The theatre had to improvise, and as often happens in such circumstances, the result was quite exciting. Agnes Habereder, an intense, pretty Cassandra given to vocal shrillness, agreed to mime Dido (which she did with immense poise and conviction), while Dunja Vejzovic sang from the side of the stage. Miss Vejzovic's French may be hazy, but her vocal suppleness and noble tone were ideal. Giorgio Lamberti's *Aeneas had a bright*, cutting top, but otherwise groped his way through the part like a verismo tenor. An excellent Anna in Vesselina Kasarova, a Dido in the making, and a promising tenor in Reinaldo Macias' Iopas.

Andrew Clark

The Wake

BUSH THEATRE

"In writing of the night," said James Joyce, " . . . it could not be done with words in their ordinary relations." So in *Finnegans Wake*, which explores the dreaming mind, he invented a language of his own. It is based on English but distorted by misspellings and continual punning. When they first tackle it, most readers find it completely unintelligible, apart from odd phrases, and they give up after about 20 pages. But there remains a devoted band of Joyceans who regard *Finnegans Wake* as one of the greatest novels ever written. These include Anthony Burgess, whose edition *A Shorter Finnegans Wake* (Faber, paperback), containing an outline of the plot, is strongly recommended to the first-time buyer.

They also include the actor and director Paul O'Hanrahan, who has adapted selected *sections of* the novel for performance as *The Wake*. This dramatic version takes the form of a non-stop series of dialogues, lasting 90-minutes, which he and Chris Bilton perform with some large-scale children's bricks as the moveable setting. The show has an ingenious lighting plot, and accompanying piano music by John Dunne. It was presented at this year's Edinburgh Fringe where it was well received and now it has come for a short season to the Bush Theatre.

The main question it raises is – does the book become much more accessible and comprehensible when it is performed like this than when it is merely read? And the answer has, alas, to be, no. The same insuperable difficulties remain; so much so that about a quarter of the capacity audience on Saturday night trooped out before the end.

However, this does not by any means invalidate the experiment, which is fascinating to watch and conducted with remarkable versatility of voice and body-language. Occasionally, as these fluent players gyrate and gesticulate, "the smog lofts . . ." and things become momentarily clear – as in the fables of the Mookse and the Gripes, and of the Ondt and the Gracehoper.

In the one recording to survive of Joyce declaiming the work, the section, Anna Livia, where two old Dublin washerwomen are engaged in a dialogue by the banks of the Liffey, the style is much more deliberate, lilting and musically phrased than it is here.

At the Bush it sometimes descends to rant and bluster. Ideally, one needs an Irish voice, like Joyce's, speaking the words while one follows them closely on the page. It is only then that one can simultaneously decode those gags aimed at the eye with those that work through the ear. Both are indispensable to the meaning.

Anthony Curtis

ARTS GUIDE

October 19-25

OPERA AND BALLET

London

Royal Opera, Covent Garden: Verdi's *Attila* receives a first-rate new production at Covent Garden. Edward Downes conducts superbly, the production by Elijah Moshinsky is bold and striking, and Ruggero Raimondi, Josephine Barstow, Dennis O'Neill and Giorgio Zancanaro sing with fiery eloquence: strongly recommended. Final performance of the dismal new production of *Siegfried*, latest instalment in the Götz Friedrich "time-tunnel" production of Wagner's Ring. Bernard Haitink's conducting is the saving grace. *English National Opera*, Coliseum. Revival of the award-winning 1986 production by David Pountney of Busoni's *Dr Faust*, conducted by Antony Beaumont. More performances of *The Magic Flute* in Nicholas Hytner's fresh and uncluttered production; final one of the cogent, boldly Expressionist new production of *Wozzeck*, staged by Pountney, with Donald Maxwell in the title role. Dance. The Royal Ballet season opens at Covent Garden with *The Prince of the Pagodas*.

Paris

Chatelet. Ballet Frankfurt in William Forsythe choreography juggling with theatrical illusions to Thom Willems music presents *Limb's Theorem*. (40282840).

Amsterdam

Muziektheater. The National Ballet with *Under My Feet* (Van Dantzig/Schat), *Pyrrhic Dances II* (Van Schayk) and a new ballet by Jan Linkens. The Netherlands Opera in Mozart's *Entführung aus dem Serail*, directed by Helmut Polixa. Netherlands Chamber Orchestra is conducted by Hartmut Haenchen. (255 455).

The Hague

AT&T Danstheater. Netherlands Dans Theater in *La Cathédrale engloutie* (Kylian/Debussy) and the world premieres of new ballets by Philip Taylor and Jean-Christophe Maillot (360 4930).

Madrid

Scala Ballet Company. Duo Oriella Dorella and Laurent Hilaire in *Giselle*, with the original *Benois sets*, conducted by Michel Sasson (Tue, Wed), and with Carla Fracci as Giselle and Zoltan Solymosi as Albrecht (Thur). Teatro alla Scala (80.91.26).

Bologna

Teatro Communale's autumn ballet season is Rudolf Nureyev and Friends, with works by choreographers Flemming Flindt, Maurice Béjart, Jose Limon, the 19th century master August Bournonville and Nureyev himself. Palazzo dei Congressi (6435111).

Florence

Messina's ballet, *Vincent Van Gogh*, performed by *the Maggio* Danza Company. Teatro della Compagnia. (2779236).

Trieste

Franco Giraldi's production of Mozart's *Don Giovanni*, with sets by Josef Svoboda, conducted by Wolfgang Rennert Teatro Verdi (631948).

Pisa

Paisello's *Barbiere di Siviglia* conducted by Alessandro Pinzauti, with Luccetta Bizzi, Ernesto Palacio and Marcello Lippi. Teatro Verdi (542484).

Rome

The ISO (I'm so optimistic) Dance Theater of New York led by Daniel Ezralow with their first full-length work, *Time Out*: rather too long, but with splendid lighting effects by John Tomlinson. Teatro Olimpico. (Fri, Sat and Sun) (393304).

Berlin

Opera. *Lohengrin* in Götz Friedrich's production has a strong cast led by Ruthild Enger, Eva Johansson, Andreas Schmidt, Jan-Henrik Rootering and Peter Seiffert. *Arabella* stars Lucia Popp in the title role. *Madame Butterfly* features Olivia Stapp, Marcia Bellamy and John Sandor. *Fidelio* in Jean-Pierre Ponnelle's production. Also *Katja Kabanowa*.

Hamburg

Opera. *Carmen* convinces thanks to Alicia Nafe outstanding in the title role. *Die Zauberflöte* returns with a new cast led by Amanda Halgrimson, Dawn Upshaw, Robert Gambill and Franz Ferdinand Nentwig. *Elektra* highlights the week with two Strauss specialists Eva Randova as Klytemnestra and Gwyneth Jones in the title role. Two John Neumeier ballets and a Gustav Mahler programme round off the week.

Frankfurt

Opera. Guest appearance of the Tokyo Frand Kabuki theatre with traditional dance and songs. The controversial Arie Zinger production of *Aufstieg und Fall der Stadt Mahagonny*. *La Bohème* in Volker Schloendorff's production features Eliane Coelho, Hildegard Heichele, Alejandro Ramirez and Albert Orinaldi.

Bonn

Opera. The successful Graham Vick *Rigoletto* production has a first-rate cast led by Dano Raffanti, Ingvar Wixell, Mariella Devia, Stephen Dupont.

Cologne

Opera. *La Finta Giardinera* is well performed by Hilary Griffiths, Teresa Ringholz, Janice Hall, John la Pierre and Jake Gardner. *Orfeo ed Eurydice* is wonderful sung by Kathleen Kuhlmann and Jungae Lee in the leading roles.

Munich

Opera. The successful Nicolaus Lehnhoff *Ring* cycle includes this week: *Das Rheingold* with Marjana Lipovsek, Nadine Secunde, Robert Hale. *Die Walküre* with Sabine Hass, Hildegard Behrens, Manfred Schunk, Martti Salminen, and *Siegfried* with Rene Kollo, Julie Kaufmann and Hildegard Behrens, all conducted by Wolfgang Sawallisch. Also Cilea's *Adriana Lecouvreur* and the Ballet *Cinderella*.

New York

Metropolitan Opera. James Levine conducts the premiere of Piero Faggioni's production of *Un Ballo in Maschera* with Aprile Millo, Luciano Pavarotti and Juan Pons. *Boris Godunov*, conducted by Yevgeny Svetlanov, features Stefania Toczyska, Gary Lakes and John Shirley-Quirk in August Everding's production. Guido Ajmone-Marsan conducts *Rigoletto* with Jerry Hadley in Otto Schenk's production. (362 6000).
New York City Opera. John Lehmeyer's production of *Martha*, conducted by Arthur Fagen, features Sheryl Woods as Lady Harriet Durham, Martin Thompson as Lionel and Dean Peterson as Plunkett. Schoenberg's *Moses und Aron* is conducted by Christopher Keene in Hans Neugebauer's production. The week also includes *La Fanciulla del West* in Frank Corsaro's production conducted by Arthur Fugen and Scott Ellis's production of Sondheim's *A Little Night Music*. New York State Theatre, Lincoln Center (870 5570).

Washington

Mounale Dance Group. Mark Morris brings his exciting dance troupe to Washington with one local premiere among his familiar repertory. Eisenhower, Kennedy Center (467 4600).

Chicago

Lyric Opera. Harold Prince's production of *The Girl of the Golden West* premieres, conducted by Bruno Bartoletti, with Marilyn Zchau as Minnie and Placido Domingo as Dick Johnson. Wolfgang Brendel has the title role in *Eugene Onegin*, conducted by Bruno Bartoletti in Pier Luigi Samaritani's production, with Anna Tomowa-Sintow as Tatiana and Gosta Winbergh as Lensky. Civic Opera House (332 2244).

Tokyo

Deutsche Staatsoper, East Berlin. *Der Rosenkavalier*. Tokyo Bunka Kaikan (235 1661).

The Pixies

ACADEMY, BRIXTON

For that vast throng of white students who can't abide the current metronomic predictability of both rap and disco music; who look back nostalgically to the early "indie" scene when bands, seemingly straight off the squat, expressed youth alienation through dis-chord, feed back and verbal abuse, help is at hand from America. The Pixies, a Boston quartet, keep alive the pure tradition of punk.

Of course, as they proved at the Academy on Saturday night, they have sophisticated the music through the sound barrier. Out is the brutally ugly; the spitting; the sexual posturing; the shock of the spew. Rather The Pixies have kept the short sharp bursts of energy that characterised punk, but refined it into the mainstream of pop. Before the abrupt endings to their songs the music seems to be straying into melody. There is also an untypical variety to the repertoire, a blaster like "Tony's Theme" being followed by the tuneful "Havalina". In the old days it was one pitch, one speed, blast. This is the new wave curled into style.

And it suits the older audience. Were these well fed and well bred young twenty year olds the future for the alienated camp followers of seventies punk? There were plenty of head bashers at the front but from many in the packed audience you got the impression, from their cool but keen detachment, that they were there because it was smart to be where The Pixies were. For once the Academy, with its ornate Palace of the People interior, looked a suitably stylish setting.

The Pixies do not give much. Bassist Kim Deal shouts some incoherent encouragement to the shakers cramming the stage but the bulk of the front man, Black Francis, was largely immobile and the guitarist made little attempt to hide the fact that he is a competent musician. Indeed The Pixies were agreeably entertaining, a cross between Velvet Underground and Echo and the Bunnymen, whose disappearance has left a void which has not really been filled. The Pixies were a haven of controlled passion, of designer power, at least compared to the mayhem erupting in the Brixton streets outside.

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To be in Emu, or not to be

TODAY'S COMMONS debate on the UK's entry into the exchange rate mechanism will, undoubtedly, show wide support for a decision that came too late. But ERM entry is yesterday's issue. It is fully consistent with past British form, therefore, that the debate will also reveal strong opposition to any move, let alone a rapid one, towards economic and monetary union.

A bet that the UK will, none the less, join Emu is a safe one. Quite apart from the usual fretting over being left at the starting gate, there are practical reasons for going in deeper, now that the first step has been taken.

ERM membership does not merely mean following the Bundesbank's monetary policy, but means doing so at a real interest rate cost dictated by the persistent exchange rate risk. One reason British politicians, including Mrs Margaret Thatcher, have learned to love (or at least to tolerate) the ERM is that it seems to offer disinflation with lower interest rates. But durably lower interest rates require a more credibly fixed exchange rate.

The first step in that direction will be early movement to narrow bands within the ERM. The second step will be acceptance of a single currency. That will be forced upon the British government by the walls of businessmen about the costs of foreign exchange risk and high interest rates. Furthermore, the British will eventually decide that a 12th share in the Eurofed would be better than none in the Bundesbank.

'Good thing'

The decision in favour of the Delors approach to Emu is likely to be taken for such reasons as these, not on the basis of any meticulously argued economic case. For any one member country, even one as recalcitrant as the UK, that is inevitable. But it would be good to know that Emu really is a "good thing" for the EC.

In its publication "One Market, One Money" and the earlier Cecchini report on the single market, the Commission shows how imaginatively it can apply economics when it finds it useful. One can only wish that the same principles were applied, with equal vigour, to other areas of Community policy, such as anti-dumping and the common agricultural white elephant.

However self-serving its analysis, the Commission makes a powerful case for Emu. But it remains a speculative one. This is not surprising. According to OECD calculations, real incomes are higher in the US than in any other country, which suggests that Emu is, indeed, economically valuable. But, within Europe, one cannot ignore the wealth enjoyed within some small currency areas, most notably by Switzerland.

The Commission notes that "the principal risk informing a monetary union is that involved in losing the possibility to change the nominal exchange rate". This means that most of the adjustment will fall on labour markets, which will, unlike those within the US, not be well integrated.

Central issue

What does the Commission have to offer on this central issue? In its paper, "Economic and Monetary Union", it remarks that "the Community should also seek to give concrete substance to the Social Charter while enhancing the capacity of national labour markets to adjust to competitive pressures in an efficient way." But how is this to be done when the first part of its goal conflicts in so many ways with the second?

Such difficulties are likely to be ignored. Unless the Bundesbank succeeds in stopping it, Emu on the Delors model will be accepted because it is less problematic for several pivotal member countries than a long continuation of the ERM without exchange controls and realignments. For the same reason, the British alternative to the Commission's approach to Emu is likely to be rejected as, in essence, the present ERM with knobs on.

For the UK the choice will probably be between being inside Emu or outside it. If so, it will choose the former. It may argue about the speed of transition and the need for prior economic convergence. It may complain about the implications for sovereignty. But it is likely to find, like France before it, that its present state as ERM member is too uncomfortably betwixt and between. The UK will accept Emu, because the alternative – being in the ERM, but outside Emu – will be worse.

A worthwhile training aid

VOUCHERS for training are in vogue. Mr Michael Howard, secretary of state for employment, rightly praised the Training and Enterprise Councils (TECs) for their plans to use vouchers as a means of extending the provision of vocational training to a wider segment of the workforce. Many individual TECs appear willing to provide a combination of long-term vision and short-term action in seeking to reverse Britain's woefully inadequate training record.

By contrast, the government appears long on rhetoric and short on substance. Mr Howard could not back up his support with a commitment to maintaining funding for the TECs in real terms over the next year. The need to expand structural investment in training is, instead, likely to be reduced in response to a purely cyclical increase in public spending. This is folly.

The government has too often viewed training as a means of reducing unemployment rather than of upgrading the skills and mobility of the workforce at large. The first pilot voucher scheme, to provide about 10 per cent of school leavers with credits of £1,500 to finance vocational training, begins next April. The scope of this pilot scheme is too limited. Furthermore, before the pilot scheme had even begun, the government announced that future funding for youth training would be cut back, because the projected number of school leavers had declined.

'Dead-end' jobs

But training should not end at 18. A government study earlier this year found that one third of adult employees had received no training since leaving school. Recent studies conducted by Full Employment UK, an employment consultancy, suggest that many of the low-paid and young, long-term unemployed perceive the opportunities available to them as "dead-end" jobs – poorly paid, with little prospect of training or promotion.

In fact, many training courses, in office skills and basic trades, are available at surprisingly little cost. But low-paid workers are often unaware of the opportunities. To address this problem, Dorset TEC has decided to offer low-paid workers vouchers worth £50, which can be used to buy employment counselling and perhaps some basic proficiency tests.

Little incentive

None the less, training plans are of little use if the training is too costly for low-paid workers. Employers have little incentive to provide financial support for training if all their competitors are not required to provide it too; moreover, the problem for many low-paid employees is that their ambitions stretch further than those their employers hold for them.

Here training vouchers come into their own. The South Cheshire TEC is considering a scheme to give low-paid workers vouchers that would cover two-thirds of the cost of the training course of their choice. The remainder of the cost would be financed by an interest-free loan from the TEC. The justification for sharing the cost of training with the trainee is twofold. First, it would make the very limited funds of the TECs go a little bit further. More important, the trainees would have a stake in making their training a success.

Such schemes would not provide the solution to Britain's training needs on their own. To be effective on a national scale, they would require an infrastructure of counsellors, trainers and courses that does not yet exist in sufficient scale and quality. In addition, many employees cannot realistically hope to undertake extensive training courses in their spare time. The widespread introduction of training vouchers would, therefore, strengthen the case for a statutory training entitlement.

Training vouchers are no panacea. But creative thinking by the TECs deserves to be matched by a substantial financial commitment from government – if, that is, the government wishes to do more than tinker with the unemployment figures.

For the first time since its invasion of Kuwait, Iraq faces two credible prongs of international action. **Robert Graham** reports

Beginning of the real phoney war

Bush faces a wary Congress; Saddam may overestimate his opponents' reluctance to fight

The Gulf crisis has entered a phase of genuine phoney war.

The US has long signalled October 15 as the rough date when the build-up of forces confronting Iraq in the Gulf would reach "critical mass". Although the multi-national land forces continue to be reinforced in Saudi Arabia and the field commanders may still need a few more weeks to feel fully confident, from now on the military option against President Saddam Hussein of Iraq becomes serious.

For the first time since the August 2 invasion of Kuwait, Iraq is faced by two credible prongs of international action – a United Nations enforced land, sea and air embargo combined with the ultimate threat of military action. The real danger of war lies in the mismatch between the limited time available to take advantage of the window of opportunity for military action and the longer period necessary before sanctions take effect.

During the very early days of the invasion of Kuwait, Mr Saddam had to contend with the possibility of a US-led surgical strike. But since then Iraqi troops have been reinforced and become well dug-in, enabling Mr Saddam to behave in the most arrogant, uncompromising manner sure in the knowledge that no attack was likely before the end of October.

With the two options out in the open, the broad international alliance against Iraq, led by the US, will be obliged to define more clearly how it intends to achieve its objectives. The fourfold objective, as spelled out by President George Bush on August 8, is – " the immediate, unconditional and complete withdrawal of all Iraqi forces from Kuwait"; the restoration of Kuwait's legitimate government; preservation of security of the Gulf; and protection of foreign nationals.

"Mr Bush's four objectives represent a fine political calculation of what Congress and the US public will wear, right now," says a senior official in the Bush administration. To expand on those aims would open up awkward questions such as the length of the conflict and casualties which the administration has no wish to face at this stage, especially before congressional elections in November.

However, the means of achieving these aims are blurred. The emphasis continues to be on a resolution by peaceful means. This was stressed by Mr Bush before the UN General Assembly on October 2. "Let me emphasise that all of us here at the United Nations hope military force will never be used. We seek a peaceful outcome – a diplomatic outcome."

Indeed having opted to use the Gulf crisis as a litmus test of the enhanced authority of the UN, both the US and its allies are obliged to cajole and persuade Iraq with a mix of sanctions and diplomacy for an as yet undefined but *reasonable* period. Nevertheless, the rape of Kuwait and its incorporation into a newly redrawn map of Iraq proceed apace. The cost to those states worst affected by enforcing the embargo like Egypt and Turkey increases, and the overall bill including military costs is running close to $5bn a month.

An Iraqi withdrawal – voluntary or forced – could well prove a poisoned chalice for the international community. A Saddam Hussein left with his enormous military machine backed by ballistic missiles, a chemical warfare capacity and nuclear ambitions would continue to present a significant danger to regional stability.

General Brent Scowcroft, Mr Bush's national security adviser, has warned on several occasions against assuming the US can use the current crisis as a pretext for knocking out Iraq's chemical, biological warfare and nuclear complexes. Further, Mr James Baker, US Secretary of State, made clear in congressional testimony last week that the US must prepare for the possibility of life with Mr Saddam's machine intact. Nevertheless, hawks both in Washington and among the Gulf rulers believe an unstated objective must be the elimination of Iraq's capacity to destabilise the Middle East.

Mediation or negotiation with Baghdad has so far proved at best a frustrating exercise in disinformation. King Hussein of Jordan, with much at stake maintaining a precarious equilibrium in his neighbouring kingdom, jumped in quickly to negotiate but got nowhere. Yassir Arafat, chairman of the Palestine Liberation Organisation, has tried and failed to offer his good services. Mr Javier Perez de Cuellar,

An Iraqi withdrawal could well prove a poisoned chalice for the international community

the UN secretary-general, was rebuffed at the end of August.

Only Mr Yevgeny Primakov, the special Soviet envoy of President Mikhail Gorbachev, seems to feel a deal could be struck with Mr Saddam. He came away from talks in Baghdad on October 5, sensing Mr Saddam could be persuaded to withdraw providing a face-saving formula could be produced – part of which would be a commitment to discuss the Arab-Israeli conflict.

Such overt linkage is vehemently resisted by Washington and its allies who have sent forces to the Gulf. But separation of the Gulf crisis and the Arab-Israeli issue has become more difficult in the wake of the international outrage over the killing of 21 Arabs in Jerusalem by Israeli security forces on October 8. President François Mitterrand of France also put on record at the UN a proposal that, if and when Iraq withdraws from Kuwait, the Palestinian question should be addressed. Those who have visited Baghdad recently say this is the sole proposal from the countries with forces ranged against Iraq to have stirred Mr Saddam's interest.

Against this background three scenarios emerge:

● Sanctions and the military build-up against Iraq are maintained indefinitely, eventually forcing Mr Saddam to withdraw or provoking his overthrow which would in turn permit an Iraqi withdrawal from Kuwait.

● Mr Saddam withdraws on his own initiative before sanctions are seen to have 'worked' in order to avoid a military conflict. Withdrawal might be complete or merely to the lines of Iraq's newly extended province of Basra, Saddamiyat al-Mitla (which permits proper access to the waters of the Gulf and leaves the Kuwaiti side of the Rumeilah oilfields in Iraqi hands).

● Military means would be used to recover Kuwait, the optimum time being between mid-November and early February. Almost certainly this would entail the destruction of Iraq's military machine and by the same token the Saddam regime.

Following the sanctions path has the attraction for the international anti-Saddam alliance of avoiding a bloody and costly war with unpredictable consequences. This is why it remains the principal plank of UN-directed policy. Yet of necessity sanctions require time. A senior Egyptian military intelligence officer told the Financial Times: "The embargo needs time ... time must be given for sanctions to take effect ... It is not yet a question of using military force." The intelligence officer mentioned February as the month in which it might be possible to assess whether sanctions were working, for at that stage Iraq should be approaching "zero point" in its capacity to withstand the international embargo. A recent study by the

Any overt linkage with the Palestinian issue is vehemently resisted by Washington and its allies

Economist Intelligence Unit reached a similar conclusion. "There will be very severe economic dislocation and hardship imposed by the embargo, but in two crucial aspects – food and fuel – Iraq and (Iraqi occupied) Kuwait can survive for a number of months, perhaps until the end of March 1991," says the EIU report.

Given the departure of more than 1m foreign workers and nationals from Iraq and Kuwait, plus Iraqi stockpiles of essentials and the windfall stocks looted from Kuwait, this estimate of a six month breathing space may be conservative. But in the longer term, Iraq, unable to sell oil, its sole source of hard currency, would find it difficult to survive such a siege.

As for the level of internal dissent, the hermetic dictatorial regime in Baghdad offers few clues. The planners both in Washington and in the field in Saudi Arabia are operating on the basis that they are dealing with a cohesive Ba'ath leadership held together by a ruthless man.

The enormous array of military forces now directed against Iraq undoubtedly adds muscle to the sanctions. Yet, the timetable for the use of these forces does not always ride in tandem with that of sanctions. The date at which the Gulf build-up reached battle readiness appears to have slipped as the difficulties of command co-ordination and reinforcement were underestimated. But the latest military intelligence briefings – with no apparent attempt at disinformation – insist the time for military action is best between late November and February.

This is primarily based upon the need to exploit the cooler winter weather conditions in an exceptionally hostile climate. On such logic, if March is allowed to pass, the military would have to wait until the following winter – unless action was limited to air strikes. Such a wait have the advantage of further tightening the screws on Iraq. But the delay also raises issues such as the domestic pressures on a US president keeping large numbers of troops overseas unused, to say nothing of the cost.

King Hussein suggested last week that he had been told by Mr Saddam prior to the invasion that the Iraqi leader intended to take over the whole of Kuwait only as a bargaining counter. His real aim was perhaps limited to obtaining the islands of Bubiyan and Warba plus the Rumeilah oilfields that straddle the Iraq-Kuwait frontier. Since August 28 these have formed part of the extended province of Basra, Saddamiyat al-Mitla, not Kuwait proper which has become Iraq's 19th province.

Faced with the UN embargo and a multi-national force prepared to fight, Mr Saddam may decide partial or complete withdrawal offers more dividends, particularly if he retains his military machine intact and can obtain some commitment from the international community to deal with the Arab-Israeli conflict. Such a move risks fragmenting the anti-Saddam alliance and of necessity would force each country involved to reassess the purpose of its military commitment. The Arab contingent confronting Iraq has never stated its purpose is other than defensive.

On this analysis, the military option requires more thinking through. Few doubt the Iraqi army could be beaten; but the daunting human cost and the consequences of a US-led battle force destroying the Iraqi war-machine have to be justified to many different audiences.

Precisely for this reason, the US Senate foreign relations committee recently told Mr Baker very plainly that the administration does not have a blank cheque for military action. The US Congress and American public opinion is in a wary mood. Military action also has to take account of the sensitivities of the US's Arab and non-Arab allies. (The multi-national force is a guest on Saudi soil). Nor can the unprecedented consensus, so carefully constructed in the alliance against Iraq at the UN round economic sanctions, be easily bulldozed into war.

In this phoney war, Mr Saddam may overestimate the reluctance of his opponents to fight and hang onto Kuwait too long. Past performance indicates he will bluff it out until the last. Avoiding war will not only test the international community's nerve and patience. It entails Mr Saddam possessing a fine sense of his own survival and being able to gauge his opponents' strategy to the point just before they decide force is necessary.

Additional reporting by Tony Walker and Lionel Barber

OBSERVER

Directors out of focus

■ The Businessman Survey, by Research Services (RSL), may have to change its title before long.

The 1990 survey admits that women now account for 10 per cent of all those of middle or higher management status - an increase of a quarter since the last survey period two years ago.

Moreover, Dawn Mitchell, chairman of RSL, says that women have got a foot in the board room door to the extent that 6 per cent of women in business are now board directors.

The survey has also found that ninety-four per cent of the women board members are married. Which indicates, says Mitchell, "that power in the boardroom does not preclude women from a successful married life as well".

But I have difficulty in getting into any sort of focus the sort of male board director that the new survey identifies.

He is "between 35 and 64" years of age, which is hardly surprising. "Neither too young nor too old", as the song goes.

To maintain his awareness of current affairs he will, also unsurprisingly, "Catch up with the news by watching television, and is also more likely than not to read a national daily paper".

As for leisure. Our man is reported to take his holidays "Both in the UK and overseas", when he can tear himself away from his desk.

RSL seems to be saying that board directors are more or less the same as the rest of us.

Self-help

■ There is a last twist to this year's public spending round, which suggests that while the Treasury has been clamping down on budgets with one hand, it may yet be holding out for more spending with the other.

The deal between John MacGregor, the education secretary, and Norman Lamont, the chief secretary, means that all the major departments have substantially agreed their budgets. The small department of Customs and Excise, however, is still refusing to settle.

Richard Ryder, the minister in charge of C & E, can be expected to be particularly awake to all the traditional gambits in the final negotiations.

He is himself paymaster-general and a Treasury minister.

Hiscocks' ride

■ It is a sign of advancing years when even racecourse managers begin to look young.

At just 27 Tom Hiscocks claims to be the youngest in the profession. He is cutting his teeth this week on his first meeting at Nottingham Racecourse where he has just been made manager.

Such are the changes in horse racing in Britain as the industry strives to be more commercially-oriented that Hiscocks has emerged as one of the first of a new breed of professional managers-in-training for a national company.

Earlier this year he joined Racecourse Holdings Trust, the company that owns the courses at Cheltenham, Wincanton, Newark, Aintree, Haydock, Warwick, Market Raison, and Nottingham.

After assisting Edward Gillespie, who runs Cheltenham with such panache, Hiscocks has been given his own course.

His brief is to secure a good commercial return on the £1.25m investment about to be made there on a new development, including private viewing boxes, a new weighing room, and an office complex.

Hiscocks has already packed ten years racing experience into his short career. He started as a stable lad for the trainer Nick Gaselee at Lambourn, and went on to other trainers in Britain, Australia, Ireland, and the United States. He got five rides "under rules".

To gain commercial experience he went to work for the City of London marketing agency Hill Murray for two years and, while there, won a bonus by bringing in a prize new account, the British Bloodstock Agency.

He wants to sell Nottingham racing harder by holding more end-of-week and evening meetings in place of unfashionable Mondays and Tuesdays.

"I was expecting Sylvester Stallone".

Sweet pork

■ The sweet smell of success is wafting through the National Agricultural Centre's pig unit, where a special feed has reduced the stinging effect of ammonia in the air by more than 40 per cent.

The feed is said to be, "a unique combination of Yucca plant extract, microencapsulated bacteria, and enzymes, which work together to reduce noxious gases in animal houses."

Pigs are, of course, omnivorous, and they did not turn up their noses at the new product, which is called De-Odorase.

The trials are being conducted by Colborne-Dawes Nutrition, a Derbyshire based animal nutrition company which has sole marketing rights.

Press day

■ President Felix Houphouet-Boigny of Ivory Coast has said that his country will re-establish diplomatic relations with South Africa if he wins the presidential election due to be held next week.

That would make it only the second sub-Saharan state, after Malawi, to have an embassy in Pretoria.

Nobody doubts that Boigny, aged 87, who has led his country for the three decades since independence, will win.

In preparation, therefore, a group of Ivorian journalists has been in South Africa at the invitation of the government there to see the former pariah state at first hand.

By all accounts the visit has been a wild success. The Ivorian delegation has been given the full red carpet treatment, including chauffeur-driven Mercedes, a sightseeing tour of the Cape, and dancing in the night clubs of Soweto.

At least one of the group, a journalist from the Ivory Coast government-controlled daily, Fraternite Matin, has been won over. "Johannesburg's fantastic", he enthused.

And what of apartheid, and the simmering civil war between supporters of the ANC and Inkatha? "I've seen no apartheid or violence. All that's just propaganda".

Down and out

■ A sign of the times in the window of a former dress shop in Birmingham, "We undersold everybody".

Worries dent ERM euphoria

Peter Norman on concerns over sterling's DM2.95 rate of entry

It's after the wedding that the bills normally flow in. And so it is proving with Britain's entry into the exchange rate mechanism of the European Monetary System.

Sterling's central rate – 2.95 Deutschmarks to the pound – was proposed by the government and accepted with hardly a murmur on the weekend of entry. Indeed, expectations were widespread that sterling would shoot to the top of its permitted range of DM3.132 in the system.

Since then, ERM euphoria on financial markets has ebbed. The pound slipped below DM2.95 last week. As Britain's economic prospects have darkened, there has been closer questioning of the implications of what may be Britain's biggest economic policy decision since the collapse of the post-war Bretton Woods system of fixed exchange rates in 1973.

While the government defends the pound's ERM level – and will do so again in today's House of Commons debate – concern is growing among industrialists that the rate is too high.

Worries have been brought into sharp focus by bad news on pay. The rise in average earnings to an annual 10.25 per cent in August, the likelihood of a tough pay round in the motor industry and the news that British Rail has offered a 25 per cent rise in basic pay to signalling engineers on Network South East have raised fears as to whether Britain can stay competitive in a fixed-rate system.

Industrialists are already admitting to discomfort with the arrangements – in contrast with the Confederation of British Industry which has welcomed ERM entry. However, the confederation is concerned that there are "clouds on the horizon" despite yesterday's trade figures which showed exports holding up well last month compared with August.

According to Mr Richard Freeman, chief economist of Imperial Chemical Industries, the DM2.95 rate "will have an impact on every company engaged in exporting from Britain". Mr Freeman says that industry feels the rate is too high and will have to adjust. "Unless there is a remarkable change in pay-bargaining behaviour, that will mean unemployment rising faster than it would have done."

Small businessmen too are worried. Mr David Pennock, chairman and chief executive of Astell Scientific, says he is "uncomfortable" about the rate. Astell is based in Sidcup, Kent, employs about 120, and makes and sells some £5m-worth of laboratory equipment a year. About a quarter of sales are exports and Mr Pennock fears that with the pound pegged to the D-Mark, his products will be undercut by US and German producers in middle and far east markets.

In the West Midlands economists say companies are now paying a heavy price for having bid up wages to secure skilled workers in short supply. "The prime concern in the region was to get a stable rate and not think about the level," says one Birmingham-based economist. "Now industry is finding the level high. It would have been happier with DM2.65 to DM2.75."

Concern was also apparent on the back benches of parliament last week. Mr Ron Leighton, Labour MP for Newham north-east, castigated the government's policy as "crazy, stupid and misguided".

However, securing a high exchange rate for the pound that would keep import prices low and limit industry's capacity to grant big wage increases was one of Mr Major's objectives. He told the House of Commons last week that a firm exchange rate was "a vital part" of government policy to maintain tight monetary conditions to reduce inflation. He was "confident that a central rate of DM2.95 is sustainable".

According to the chancellor, Britain's huge current account deficit, which last year reached a record £19.1bn, reflects domestic demand outstripping supply rather than an uncompetitive exchange rate.

Britain's recent export performance gives some support to his view. Between 1985 and the beginning of this year British volume exports grew by about 40 per cent against 36 per cent export growth for Britain's 10 leading industrial competitors as a group. In the five years to 1985, the positions were reversed, with the other industrial countries increasing their exports by nearly 16 per cent compared with a 10 per cent rise in UK volume exports.

British exports have also captured a growing share of world markets. According to Mr Geoffrey Dicks, a senior economist at the London Business School, Britain's share of world trade probably reached its highest level for a decade in the second quarter of this year.

In addition, recent inward investment into the UK by groups such as Nissan and Toyota of Japan suggests that powerful foreign manufacturers are not put off by the government's strong exchange rate policy and instead see the advantages of a UK base in the post-1992 European single market. In a recent study, Salomon Brothers, the US investment house, forecast a manufacturing boom for Britain in the 1990s, describing the UK as a possible "Hong Kong of Europe".

In his defence of the ERM entry rate, Mr Major argued that DM2.95 was sterling's "average inflation-adjusted real rate of the past decade". He cited three independent analysts' assessments of the pound's purchasing power parity which suggested that the pound was competitive with the D-Mark at DM3.30, DM3.19 and DM2.95. He also said International Monetary Fund figures indicated that industry will be competitive at DM2.95.

It is in the complex thicket of purchasing power parities (PPPs) that Mr Major is on weaker ground – they are at best an unreliable guide to competitiveness.

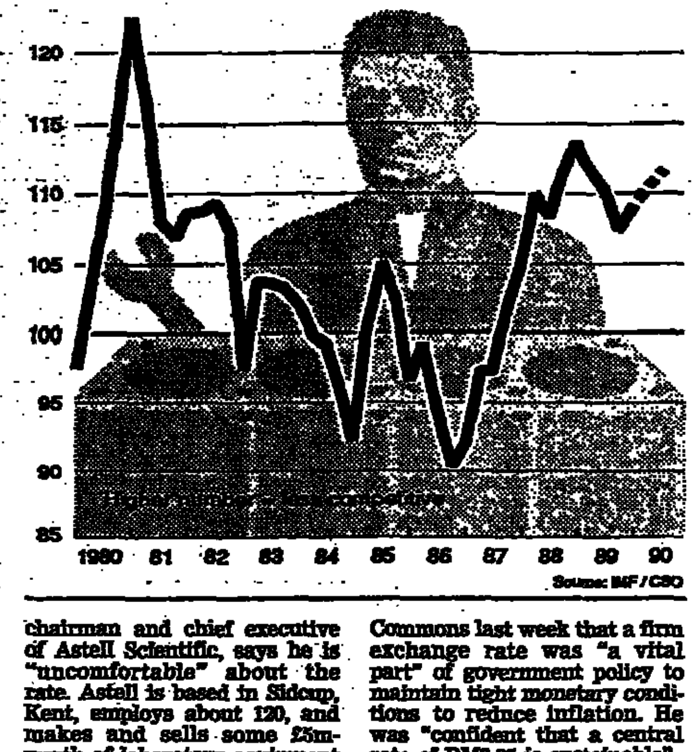
Goldman Sachs and UBS Phillips & Drew, two London investment houses, each calculate sterling's purchasing power parity rate against the D-Mark at about DM3.30. But Mr Gavyn Davies, Goldman's chief economist in London, believes that the ERM entry rate of DM2.95 is about right. Mr Bill Martin, Phillips & Drew's chief economist, thinks DM2.50 to DM2.70 would have been a more appropriate rate.

The gap is explained primarily by different perceptions of what the exchange rate should achieve. Mr Davies feels a lower rate would have no effect in curbing inflation. Mr Martin believes the government's chosen entry rate may produce a "lead balloon" economic scenario in which it must raise interest rates at some point when it should be cutting them to sustain activity.

Whether DM2.95 turns out to be a prudent rate or act of folly depends on developments, particularly in wage negotiations. Since the pound entered the ERM, both Mr Major and Mr Robin Leigh-Pemberton, the governor of the Bank of England, have stressed that wage increases must fall if the ERM experiment is not to end in tears. Without wage moderation, the DM2.95 rate could become a huge gamble for the government and especially for Mr Major, in what is now a pre-election period.

Britain's international competitiveness

Index of relative normalised unit labour costs, 1985=100



FOREIGN AFFAIRS

New era for nations in embryo

Edward Mortimer hopes that it will soon be easier to redraw borders than to move people

Beware of visiting small countries: you can easily get an exaggerated sense of your own importance.

I went last week to the Basque Country: a country of 3m people, the majority of whom vote regularly for different varieties of Basque nationalism, and will do so again, if opinion polls are anything to go by, when they re-elect their autonomous Basque parliament next Sunday; a country, moreover, which was only invented about 100 years ago, when Sabino Arana, the founder of Basque nationalism, coined the name "Euskadi" to give a common identity to the regions, until then separate, where the Basque language was spoken.

I was invited by the Fundación Sabino Arana, a think-tank closely associated with the Basque Nationalist Party (PNV), which is the dominant party in the Basque government and confidently expects to increase its vote, thanks to the decline of a splinter party led by the former prime minister, Mr Carlos Garaikoetxea (a kind of Basque David Owen). Mr Joseba Aguirre, son of the president of the shortlived Basque Republic of 1936 and now director of the chamber of commerce in Bilbao, kindly invited me to lecture there on "European security in the 1990s".

I knew I would be treated very hospitably, but I had not been prepared for quite the VIP treatment I got, culminating in a full-page report of my lecture in one of the local newspapers under the headline "Edward Mortimer y el futuro de Europa". (Although the Basque language, famous for its lack of resemblance to any other known language anywhere in the world, is of great emotional importance to Basque nationalists, they ruefully admit that it is in current use only by a minority, whereas knowledge of Spanish is universal.)

The key to the enigma was a map, purportedly representing "Europe in 2020", which had little or nothing to do with my lecture but was reproduced prominently below the newspaper report. This map first appeared in the FT on January 24, to illustrate an article in a special survey we published on "East Europe in Ferment". In the FT it was firmly labelled "a fantasy", and the article stressed that it was simply an "exercise of the imagination". I carefully disclaimed any pretension to second sight. Egged on by colleagues at a moment when we were all filled with euphoria at the sudden liberation of eastern Europe, I was having fun.

If there was a serious point to the article, it was that in a world of instant global communication frontiers should not matter as much as they once did, and certainly they are not worth fighting for. But I really did not expect the article to attract much attention.

As it happened, I left London for Prague just after completing it, and there contracted a nasty bout of flu, with the result that I never even saw the proof of the map before it was published. Had I done so, I like to think I should at least have corrected the inadvertent transposition of Flanders and Wallonia (an exchange I do not anticipate even in my wildest fantasies). I probably should also have included Macedonia and Bosnia-Herzegovina in Serbia rather than making them separate members of my imaginary "Balkan Union". I'm afraid I might not have noticed, however, that the frontier of Euskadi had been so drawn that it clearly includes the province of Navarre.

In a world of instant global communication frontiers should not matter as much as they once did, and certainly they are not worth fighting for

I should have been more careful. The FT after all prides itself on being a European newspaper. My "fantasy" attracted attention in parts of Europe where national frontiers are taken very seriously, and where its light-hearted nature was not automatically understood. I discovered not long afterwards that the article, and more especially the map, had caused great excitement in Turkey – because I had suggested a "Turkic Union" in which the Turkish-speaking peoples of the Soviet Union and northern Iran might join with Turkey, "minus Kurdistan". Some Turks like the idea of the link-up. Others dislike the implied separation from western Europe. Almost all strongly dislike the idea that south-eastern Turkey might secede, or even might become generally known as Kurdistan.

It was certainly provocative of me to put that in, but my starting hypothesis, a deliberately optimistic one, was that by 2020 it will no longer be possible to keep people inside a state if the majority of them would rather be outside it. Minorities who are seriously unhappy will leave, but where a majority in a sizeable region is unhappy, especially if that region is on the edge of an existing state and next to a region in another state where people speak the same language or believe they have the same national identity, then it will be more convenient to move the frontier than to move the people.

Those conditions might well be fulfilled in south-eastern Turkey, unless the Turkish state becomes much more successful than it has been lately in making Kurdish people feel it belongs to them as much as to ethnic Turks.

But it was only last week that I realised that this wretched map had made me famous in the Basque Country as well. To be fair, I don't think this was mainly because of the mistake about Navarre, although that was certainly unfortunate. Navarre is the Northern Ireland of the Basques: that is to say, it is regarded as one of the Basque "historic territories", but the majority of people now living there do not consider themselves Basques and have opted not to join the autonomous "Euskadi", as the Statute of Basque Autonomy entitles them to do. The present Basque government, like the government of the Irish Republic, accepts that this decision can only be changed by free choice of the people concerned; but the terrorists of ETA, like the IRA, do not.

I had no intention of intervening in this argument at all, and still less of lending my support to any programme of terrorism or coercion. The same map showed Northern Ireland as still separate from the Republic, because I do not expect the Northern Irish to change their minds and my hypothesis ruled out the idea that they might be forced to do so. I don't know enough about Navarrese politics to be equally certain that there could be no voluntary change of heart in that case, but I certainly would not wish to prejudge it.

What I did and do think was that if the process of European integration continues a time will come when it is no longer necessary for regions with a strong sense of national identity, such as Euskadi in its present frontiers certainly is, to have their membership of the European Community (or its successor organisation, which my fantasy had called "United States of Western Europe") mediated through one of the existing member states.

"Scotland in Europe" is to my mind a perfectly reasonable slogan, and one that should recommend itself to English Conservatives who think there are at present too many tiers of government – quite apart from the tactical point that a UK without Scotland, whether or not it still included Wales and Northern Ireland or was reduced to England, would presumably have a more securely built-in Conservative majority than the present UK does.

On that point I agree with the Basque Nationalists, which explains the specially friendly welcome they gave me – though I am sure they are very friendly even to those who disagree with them. But I am not sure they should attach such importance to my opinion; and I am waiting nervously for the news that a street has been named after me by mistake in Sarajevo, or that I have been burnt in effigy simultaneously in Antwerp and Liège.

LETTERS

ERM: the wise and painful entry level

From Mr Giles Keating.

Sir, Simon Wren-Lewis's analysis of Britain's entry to the exchange rate mechanism ("The danger of a high entry level," October 19) assumed that UK interest rates would fall to within 2 per cent of the German level when sterling joined, due to increased confidence in the currency.

Had this happened, then the rest of Professor Wren-Lewis's analysis would follow: domestic demand would be boosted, worsening the trade deficit and inflation, and these outcomes would have required a low entry level.

As it is, UK interest rates after ERM entry are still more than 5 per cent above German levels and sterling's recent weakness suggests that further narrowing of the gap will take some time. Mr Major chose a high entry level and the market is suspicious about its sustainability. So interest rates will not fall rapidly and inflation will now fall, instead of accelerating as it does in Professor Wren-Lewis's low-entry-level, low-interest-rate scenario. Mr Major's choice of entry level is the wise one, although it means pain in the UK traded goods industries, initially a profits squeeze and then lower wage rises.

Giles Keating,
director (economics),
Credit Suisse First Boston,
2a Great Titchfield Street, W1

From Mr Peter Robeson.

Sir, Simon Wren-Lewis wonders why the government and the foreign exchange market did not accept the argument for a lower ERM entry rate for sterling. He posits four possible reasons.

I would not presume to speak for the government, but I would suggest that the market was not concerned with any of them. Its only concern was to take advantage of investment in a currency with a high enough short-term yield to more than offset the extremely unlikely possibility of an early downward realignment. Even this enthusiasm has cooled rapidly inside a plus/minus 6 per cent band.

The scale of this initial reaction and possibly of the market's eventual major sell-off (if that is not too cruel a pun) has been, and could be, that much greater simply because sterling – unlike all the other non-D-Mark currencies in the ERM – is one of the main international investment currencies. It is this role which inevitably complicates sterling's adherence to a fixed-but-adjustable system in a floating exchange rate world.

Peter Robeson,
Happisburgh, Norfolk

From Mr J.P. Warren.

Sir, Douglas Jay ("Fixed exchange rates and the lessons of history," October 10) gives the impression that Britain's prosperity since the First World War has depended on the successive devaluations of sterling to which he refers. I submit that all history proves otherwise, in that while devaluations can provide a short-term palliative for a nation's economy, their longer-term effect is always to increase the lack of competitiveness which makes them politically expedient.

Mr Jay is not alone in blaming Churchill for the deflationary hardships caused by the 1925 revaluation of sterling. There are, however, some, including myself, who believe that, painful as its effects were, it served to protect Britain from the full impact of the 1929-1932 world slump, as suffered in the US.

J.P. Warren,
Cherrymead,
Alfold,
Cranleigh, Surrey

The Turks in northern Cyprus

From Mr Alper Faik Genc.

Sir, Edward Mortimer ("More than one kind of linkage," October 16) shows an uncritical acceptance of Greek Cypriot allegations that northern Cyprus is "unlawfully occupied by Turkish forces".

The Greek Cypriots are, however, in no position to complain of breaches of law, for the ink was hardly dry on the 1960 independence constitution when they began to violate it. Having got the Turkish Cypriots out of all positions in parliament and government, they would not let us back unless we accepted constitutional changes made unilaterally.

In 1963 they ignored the Supreme Constitutional Court of Cyprus when it ruled against them. When we refused to bow to the pressure they launched a violent attack on Turkish Cypriot families at Christmas 1963, and many hundreds of men, women and children were killed in cold blood.

The Foreign Affairs Committee of the UK House of Commons reported (1987): "There is little doubt that much of the violence which the Turkish Cypriots claim led to the total or partial destruction of 103 of their villages and the displacement of about a quarter of the total Turkish Cypriot population, was either directly inspired by, or certainly connived at by, the Greek Cypriot leadership itself."

For the next 11 years Turkish Cypriots lived in enclaves in fear of their lives. The last straw for us, and for Turkey, came in 1974 when Greek forces and Greek Cypriot paramilitaries seized power in order to annex the island to Greece and murder the remaining Turkish Cypriots. Five days later Turkey intervened to save us, and we now live in peace guaranteed by Turkey in the island's northern third.

The United Nations Security Council called for the withdrawal of Greek troops, but it has never called for the withdrawal of Turkish troops, which are present by virtue of the 1960 international treaty of guarantee. To argue that Turkey should have withdrawn and left us again at the mercy of the Greek Cypriots is legalistic nonsense. We have accepted – and Greek Cypriots have not – the 1986 UN plan for a settlement, including the withdrawal of non-Cypriot troops.

Alper Faik Genc,
press counsellor,
Office of the London Representative, Turkish Republic of Northern Cyprus,
28 Cockspur Street, SW1

Israel and UN Resolution 242

From Mr S. Goldman.

Sir, Robert Graham ("UN negotiates resolution on Israeli killings," October 11) makes a rather important error when he refers to "Israel being asked to observe Resolution 242, calling for its withdrawal from the territory occupied in the 1967 Six Day War".

In fact Israel was the only country which accepted Resolution 242 but it was rejected by all the Arab states. They rejected it because the resolution goes on to say "shall withdraw to secure and recognised borders". Israel would still be happy to implement Resolution 242 and would be delighted to quit its defensive occupation of the West Bank and Gaza to retire to secure and recognised borders, providing its hostile neighbours agree to accept the main principle of 242.

It is impossible to equate that situation with the resolution demanding the withdrawal of Iraq from Kuwait because Iraq already has secure and recognised borders if it agrees to withdraw behind them.

S Goldman,
Goldman Investments,
81 Stonegate Road,
Leeds

A challenge to economists: the interpretation of 'sustainable'

From Mr Bernard Little.

Sir, David Richardson ("Farmer's viewpoint," October 16) highlights how the word "sustainable" is being used by agribusiness to justify its continuation of present agricultural methods. Quite possibly it will be the interpretation and use of that word which will lead us to, or away from, a tolerable future for ourselves and following generations.

The interpretation of "sustainable" used by the Green party is quite straightforward. It is the recognition that all earth's resources are finite and that a sustainable system means taking no more from an ecosystem than it can create and, at the same time, remain healthy, diverse and self-perpetuating.

In a practical sense it means returning all waste back to the soil, a system that if managed properly can carry on indefinitely. Current agricultural systems clearly do not meet these criteria.

The challenge for economists is to marry ecology and economics so that running a sustainable business is ecologically sustainable as well.

Bernard Little,
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FINANCIAL TIMES
Tuesday October 23 1990

RELATIONS WITH VIETNAM RESTORED

EC lifts sanctions against China and Iran

By Tim Dickson in Luxembourg

EUROPEAN Community foreign ministers yesterday agreed to lift sanctions against China and Iran, as well as restoring diplomatic relations with Vietnam. But Britain blocked moves to lift sanctions against Syria.

Diplomats said that a ban on arms sales and military co-operation imposed against China following the Peking massacres in June last year would remain in force, and that the Community would continue to raise its concern over human rights whenever appropriate.

"We will continue to be vigilant," Mr Gianni de Michelis, Italy's foreign minister and current chairman of the EC Council of Ministers, said at a press conference after the meeting.

Mr Douglas Hurd, Britain's foreign secretary, said there was a general feeling that the EC and the rest of the world had "marked its abhorrence at what happened in Tiananmen Square the summer before last. No useful purpose is served by reducing the level of contacts between the West and China. Such contacts are in the interests of the Chinese people as well as ourselves".

With Vietnam, individual EC countries already have links but yesterday's decision by the 12 as a whole will allow the EC to finance development projects and provide aid for Vietnamese "boat people".

Mr Hurd said that the decision had been easier as a result of "the new attitude to the boat people".

The EC imposed a series of political and military sanctions against China following the crackdown on pro-democracy demonstrators. These included the suspension of high level contacts, a reduction in cultural, scientific and technical cooperation and opposition to credits from the World Bank.

It is understood that China's support for the West's campaign against Iraq was an important factor in yesterday's decision.

Britain, however, drew the line at supporting Syria for similar reasons. Sanctions against Damascus were imposed in 1986 when the Syrians were linked to an abortive attempt to blow up an Israeli plane at Heathrow airport, London. Britain has already lifted its opposition to a new EC financial aid package for Syria but Mr Hurd said he did not want to go further at this stage. "The original obstacle was connected with state support for terrorism. I would like to get it out of the way but it takes two".

In practice, however, an EC ban on high-level contacts with Syria has effectively been relaxed.

Mr Roland Dumas, the French foreign minister, said that few governments wanted to push Britain over its stand on Syria because of their concern over the situation in Lebanon, where Syrian forces now control the Christian sector of Beirut.

Saddam agrees to free some US and UK hostages

By Our Foreign Staff

PRESIDENT Saddam Hussein of Iraq yesterday agreed to release a number of male US and UK hostages and raised the prospect of freeing all French nationals being used as human shields.

The Iraqi leader said his decision to release the British and US hostages was taken on "humanitarian grounds". His offer to consider the release of French hostages was made in response to what he called France's "rejection" of US aggression against Iraq.

Last night, however, Paris rejected the Iraqi proposal. A spokesman for President François Mitterrand said France would stand by United Nations resolutions demanding the release of all hostages.

A Virgin Airways Boeing 747 carrying a team of doctors and nurses is due to arrive this afternoon in Baghdad to collect a number of elderly or sick male British hostages freed as a result of Mr Edward Heath's weekend talks with Mr Saddam. The aircraft was due to leave London at 10.30 this morning to arrive in Baghdad at 5.30pm local time. It will return directly and is due to land at Gatwick airport at 12.30am tomorrow.

Mr Heath, the former UK prime minister, has handed Mr Saddam a list of 200 Britons whom he had argued should be released on humanitarian grounds during three hours of talks with the Iraqi president.

Efforts to agree a final list appeared to have run into difficulties last night as the Iraqi authorities haggled over who should be released.

Mr Saddam said he would also free a small number of elderly or infirm US men in response to a separate humanitarian mission to Baghdad – the latest in a series of individual diplomatic efforts since Mr Kurt Waldheim, the Austrian president, succeeded in bringing home 80 of his countrymen through a personal mission to Baghdad in August.

"There is a definite commitment by the Iraqi leadership that some Americans will be released," Mr Salim Mansour, the head of an American-Iraqi Association delegation in Baghdad said yesterday.

A number of Soviet, Brazilian, Spanish, Italian and French hostages have also been freed as a result of individual diplomatic efforts.

Mr Saddam nevertheless told Japanese television that he would continue to detain other western males in Iraq until "the threat of war against Iraq ceases to exist".

The Iraqi leader has, so far, maintained his toughest stand against US and British hostages, linking their detention directly to each country's part in the military build-up against Iraq – the exception being his decision last month to release all US and British women and children trapped in Iraq and Kuwait.

A total of 1,450 Britons are held in Iraq and Kuwait, more than any other group of foreign nationals. Some 350 Britons are believed to be among the 700 western men held at strategic military and civilian installations in Iraq.

Mr Saddam has now made pointed political use of his hostage card by raising the prospect that all male French hostages would be released in recognition of what he called "the free French people's rejection of (US president) Bush's aggressive means and the use of arms against Iraq".

Mr Saddam has asked the Iraqi national assembly – the country's largely impotent parliament – to debate the release of all 350 Frenchmen in the country as a gesture of appreciation towards France. The assembly will meet today.

The French government said last night that the release of French hostages was "not negotiable", implying that no deal had been done with Iraq for their release.

Mr Saddam's statement alluded approvingly to peace proposals put to the UN General Assembly last month by Mr Mitterrand.

These suggested that an Iraqi withdrawal from Kuwait could result in intensified western efforts to resolve other Middle Eastern problems, including the Palestinian problem which lies at the heart of the Arab-Israeli conflict.

There was no indication last night how many Britons would be freed following Mr Heath's mission, and there were reports last night in Baghdad that the release was being delayed by haggling over who should be freed.

Mr Saddam yesterday also agreed to free a small number of elderly or infirm US men held in Iraq, according to Mr to urge the humanitarian release of US nationals.

Iraqi officials said they would reveal today how many Americans could leave.

Background, Page 4; The real phoney war, Page 20

ANC agrees to Mandela meeting Buthelezi

By Philip Gawith in Johannesburg

THE African National Congress yesterday agreed to a meeting between Mr Nelson Mandela, its deputy president, and Chief Mangosuthu Buthelezi, leader of South Africa's conservative Inkatha Freedom Party, its main black political rival.

The move is seen as an important concession, enhancing prospects for an end to violence between the groups' supporters, which has claimed hundreds of lives in the past three months.

The ANC had previously resisted such a summit, arguing that it would confer national legitimacy on Inkatha which the ANC considers to have only limited regional support in Natal province.

The ANC's national executive committee, its chief policy making body, yesterday proposed a meeting with its Inkatha counterpart "with the participation of Chief Mangosuthu Buthelezi and Mr Nelson Mandela" and "in the near future". Mr Mandela is currently on a visit to Australia.

Chief Buthelezi responded by saying the proposal "is consistent with recommendations that have been made by the leadership of the IFP for some time now". He said that the IFP would consider the details of the proposal when it was officially brought to their attention.

The meeting would be aimed at ending violence between supporters of the two organisations, which has wracked Natal for some years, and Transvaal townships since August 1990.

Chief Buthelezi, who is also the chief minister of the KwaZulu black "homeland", refused an invitation earlier this month to meet Mr Mandela together with other homeland leaders, saying that only a bilateral meeting between the ANC and Inkatha could help end the violence. He was also angered at being invited in his capacity as a homeland leader rather than as leader of a political party.

The groundwork for a meeting between the two leaders has recently been established in Natal, with the signing of regional peace accords and high-level meetings between the parties. A meeting in Durban last week was said to have been conducted in a very good spirit and characterised by a high degree of self-criticism on the part of the IFP delegation about the behaviour of their members in the past.

The ANC executive also welcomed progress with the government over the release of political prisoners and the return of exiles. This appears to end a period of squabbling and accusations of bad faith surrounding these issues.

Chief Buthelezi: only a bilateral meeting would be acceptable

Britain increasingly isolated on date for Emu

By Tim Dickson in Luxembourg

BRITAIN appears to be becoming increasingly isolated in arguing forcefully against a firm date for a further push towards European economic and monetary union (Emu).

At a meeting in Luxembourg yesterday, EC foreign ministers held a discussion on the so-called stage two of the process, at which only Britain raised the issue of the date, according to a European Commission spokesman.

Portugal and Greece have voiced some reservations about the second stage, which would see the setting up of a European central bank and greater economic convergence, but Britain was alone at the weekend, when Mrs Margaret Thatcher, the British prime minister, told Mr Giulio Andreotti, her Italian counterpart, that she would not agree to set a date at next weekend's EC summit in Rome.

It was uncertain last night whether Mr Gianni de Michelis, Italy's foreign minister, would wish to force the pace at the Rome summit.

Yesterday, Mr Douglas Hurd, the British foreign secretary, essentially told his colleagues that substance on Emu (which is so far unclear) was more important than timing.

Interest in the date has been fuelled by Chancellor Helmut Kohl's announcement last week that Bonn wants stage two to begin on January 1 1994.

The Luxembourg meeting considered a paper drawn up by the current Italian presidency of the Community, which appeared to support "some aspects" of Britain's alternative "hard ecu" route to Emu.

German research institutes 'too pessimistic'

Continued from Page 1

The motor of the west German economy is no longer exports but domestic demand, in particular from east Germany.

But the institutes warn that the west German economy is not as robust as it appears.

They also warn of a potential price-wage spiral and say that wage negotiators should not attempt to win compensation for higher oil prices as a result of the gulf crisis.

The next wages round in east Germany must link pay rises strictly to productivity rises and introduce much greater differentiation. In west Germany, too, union negotiaters must be more modest in their demands as a result of slower productivity increases, worsening terms of trade for exports, and sharper competition in the labour market thanks to the inflow of east German workers.

● Mr Detlev Rohwedder, the chief executive of the Treuhand, has estimated that east Germany industry has a value of about DM600bn. However, He also believes that the cost of cleaning it up will be considerably higher. Most of the latter cost will be carried by the Government.

Britain's trade deficit shrinks as economic slowdown deepens

By Peter Marsh in London

BRITAIN last month enjoyed its smallest trade deficit since April 1987 as the deepening economic slowdown caused imports to decline for the sixth successive month.

The September deficit of £850m ($1.67bn), announced yesterday by the Government's Central Statistical Office, was much lower than expected and marked the first time this year that the monthly deficit has been less than £1bn.

While imports in the past three months have been at roughly 6 per cent below the levels in the first half of the year, exports rose in September for the third month running, further shrinking the monthly trade deficit.

This good news for the government was tempered, however, by the trend in export volumes over the whole of 1990.

Yesterday's figures showed that the volume of exports over the past three months, excluding oil and high-price, erratic items, showed a 1 per cent fall compared with the previous quarter.

Manufactured items suffered a particularly large decline.

This fall underlined warnings from some sectors of UK industry that sterling's high value within the European exchange rate mechanism is harming companies' international competiveness.

The value of visible exports in September was a seasonally adjusted £8.8bn, up 2.5 per cent on the August figure of £8.6bn. Imports declined during September, from £9.8bn in the previous month to £9.6bn.

The Central Statistical Office estimated that invisible trade – services, dividends, interest and various transfer payments – was in balance in September, making Britain's trade deficit last month the same as the current account deficit.

For the three months to September, Britain was £3.8bn in deficit in the current account, compared with £5.1bn in the previous quarter. For the first nine months of 1990, the cumulative deficit stands at £13.6bn and is likely to reach about £15bn for the whole of the year in line with government forecasts, compared with a record £19.1bn in 1989.

..Mr John Maples, economic secretary to the Treasury, said on BBC Radio that the government's policies were working. Rising exports and falling imports were "the kind of trends we want to see".

For the Labour opposition, Mr Gordon Brown, the party's trade and industry spokesman, said Britain's trade figures remained the worst in Europe. He called for new government initiatives to boost manufacturing.

The trade figures, announced at mid-morning, buoyed up the pound, which had earlier slipped. Against the German currency, sterling closed 1 pfennig up at DM2.9550, while against the dollar it finished the day at $1.9490, down 1 cent.

Britain's trade performance in September was helped by a £200m surplus on its oil trade, a figure which was £100m above the level for August and which resulted from higher oil prices caused by the Gulf crisis.

Export threat, Page 12; Worries dent ERM euphoria, Page 21; Markets, Section II

US budget talks resume

continued from Page 1

package, approval will require a combination of a majority of House Democrats and at least half the Senate Republicans. This limits the negotiators' freedom of manoeuvre.

Although a deadline has been set for midnight tomorrow - when the US government runs out of money again - the key discipline is the approach of mid-term elections two weeks away today.

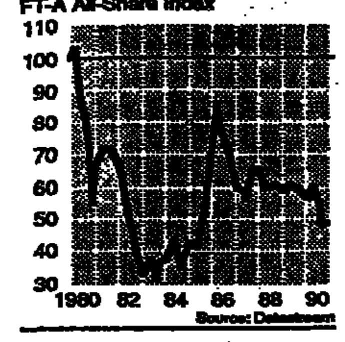
THE LEX COLUMN

Shrugging off good news

Yesterday's muted response to undoubtedly good UK trade figures and a further collapse in the oil price shed a curious light on the market's preoccupations. What matters just now is the behaviour of sterling, which is developing a worrying tendency to slip below its central ERM rate. Given the provisional nature of the UK's ERM commitment, a bad set of trade figures could doubtless still put sterling at risk. But yesterday's good figures were largely ignored by the currency market, so the equity market ignored them too.

Then again, the markets may simply have thought the figures too good to be true. The 8 per cent rise in export volume in the third quarter compared to a year ago will be hard to sustain, given the recent loss of competitiveness and the slowdown in the UK's export markets. The zero rise in imports, meanwhile, seems evidence that domestic demand is slowing down rather than collapsing. Granted, that cannot last either, assuming the ERM succeeds in its object of punishing companies and employees who pay themselves too much. But none of that is good for corporate earnings, a fact of which the equity market is fully conscious as it nervously awaits ICI's third quarter figures on Thursday.

Lucas
Share price relative to the FT-A All-Share Index



Tioxide

Cookson's deal with ICI on Tioxide makes pretty grim reading. The price of £160m means Cookson remains more than 70 per cent geared after surrendering a holding which in good years contributed half its profits. It is also receiving a pitiable multiple of 2.7 times last year's earnings for a business which in the late 1980s grew by more than 25 per cent a year. But ICI has its partner over a barrel. Not only are Tioxide's profits collapsing in the downturn of the cycle; the business also requires capital expenditure on a scale which Cookson might not be able to afford without breaching its loan covenants.

That same expenditure raises the question of how good the deal is for ICI. The two parties differ hugely in their estimates; but splitting the difference, the bill for new capacity, closing older plant and converting the rest to cleaner technology would come to £450m between now and 1995. Even for ICI, which has just cut next year's capital budget by 10 per cent to £900m, that is a material sum to devote to an undifferentiated commodity of the kind it is supposed to be getting out of. It could be that having gained control on the cheap, ICI means to sell Tioxide on. But the price Cookson is settling for scarcely suggests a surplus of buyers.

The rest of Cookson is tricky to assess. At yesterday's 68p, the market values the business net of the cash receivable at under £90m. But the risk of Cookson now going under looks marginal. The business may not be recession-proof; but it has got rid of much the most volatile part of its earnings. And while profits remain hard to forecast with confidence, the breaking of the link with ICI makes it more vulnerable to any predator attracted by net asset value of over 150p per share.

Lucas Industries

The UK's motor components market fell flat on its face this spring and summer, and in the rest of Europe 1991 is not going to be a year Lucas or its peer companies will want to remember. The hard thing is to work out whether 1992 is going to be any better. Financially Lucas is solid, as yesterday's annual figures showed: net gearing was 16 per cent and cash flow was positive even after tax, dividends and £136m of capital spending. Hence Lucas should have little trouble affording the £150m it plans to spend in the diesel engine equipment business over the next five years; and its dividend increase, at 12 per cent, still looks comfortably affordable.

The trouble is that when many of a company's main markets are turning down, the historic figures are academic. In Lucas's small print yesterday was a 25 per cent fall in operating profits from its the UK automotive parts business: but the real worry now is whether Europe could go the same way. Even in aerospace, where Lucas's profit margins edged up a point to 10.2 per cent, uncertainties creep in after 1993, even if civil prospects are very good until then. The shares yield 7.8 per cent now, which for the time being seems what they deserve.

Oil prices

If the September rise of crude oil prices to $40 per barrel was gravity-defying, then the return to earth in the past 10 days can at least partly be explained by the simple reversal of psychology. In retrospect, predictions of a cycle of rising war premium followed by decline were right, but failed to anticipate how far prices would rise before the decline set in. Throw in the lagged effect of stepped-up oil production and the explanation of the fall back below $30 per barrel looks convincing enough.

There are other concerns behind the downward pressure on prices. Traders are worried that a long-term equilibrium price around $25 per barrel might not be sustainable if the eventual return to normality of Iraqi and Kuwaiti production results in over-supply. No-one really doubts that the cycle of price volatility will continue; but though the price will doubtless jump again on the next war scare, there will not be the same number of forced buyers this time round.

Hammerson

For the past year, the chief analytical task facing investors in UK property shares has been to work out which of the over-geared developers was going to hit the rocks. This may now be changing. Judging from some of Hammerson's interim comments, the challenge now is to work out which of the big four or five property investment companies have the strategy and the finances to play the vulture over the next two years.

In the last six weeks or so, Hammerson says it has started to see worthwhile opportunities in UK commercial property. Whether Hammerson, with £700m of net debt already and a big exposure to Canadian real estate, is the best-placed company to take the initiative is not quite so clear. At the moment, it looks as though British Land and Land Securities will have the edge in the coming months, with Hammerson and MEPC some way behind.

WORLDWIDE WEATHER

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	S	22	72	Berlin	S	8	46	Caracas	–	–	–	Faro	F	19	66	Islamabad	F	25	77
Algiers	C	25	77	Biarritz	R	13	57	Casablanca	F	20	68	Florence	S	17	64	Istanbul	C	11	52
Amsterdam	S	11	52	Bombay	S	33	93	Chicago	–	–	–	Frankfurt	S	10	50	Jakarta	F	35	95
Athens	C	22	72	Bordeaux	F	16	65	Cologne	S	11	52	Geneva	C	12	54	Jersey	F	15	59
Bahrain	S	30	86	Boulogne	F	13	57	Copenhagen	S	8	46	Gibraltar	C	18	65	Johannesburg	S	25	77
Bangkok	F	32	90	Brussels	S	12	54	Corfu	C	20	68	Glasgow	F	11	52	Lima	C	18	66
Barcelona	C	21	70	Budapest	F	7	45	Dallas	S	3	39	Helsinki	F	7	45	Lisbon	R	13	57
Beirut	–	–	–	Buenos Aires	F	28	75	Dublin	C	12	55	Hong Kong	S	27	81	London	S	12	55
Belfast	C	11	52	Cairo	F	31	88	Dubrovnik	S	17	64	Innsbruck	S	12	54	Los Angeles	S	17	64
Belgrade	C	7	45	Cape Town	C	17	63	Edinburgh	C	10	50	Inverness	F	11	52	Luxembourg	S	10	50

		°C	°F			°C	°F			°C	°F			°C	°F			°C	°F
Madeira	S	21	70	Milan	F	12	54	Nicosia	S	23	73	Salzburg	S	10	50	Tenerife	C	22	72
Madrid	C	12	55	Montreal	C	12	54	Oporto	C	16	61	San Francisco	S	12	54	Tokyo	S	21	70
Majorca	F	25	77	Moscow	–	–	–	Oslo	S	2	37	Seoul	S	22	73	Toronto	C	8	46
Malaga	F	20	68	Munich	S	7	45	Paris	S	12	55	Singapore	–	–	–	Tunis	S	27	82
Malta	S	25	77	Nairobi	C	18	65	Peking	S	17	64	Stockholm	S	6	43	Valencia	C	16	61
Manchester	C	10	50	Naples	F	20	68	Prague	S	7	45	Strasbourg	S	11	52	Venice	S	12	55
Manila	C	27	81	Nassau	C	32	90	Reykjavik	Dr	8	46	Sydney	C	16	61	Vienna	S	7	45
Melbourne	C	12	55	New Delhi	–	–	–	Rhodes	F	22	73	Taipei	–	–	–	Warsaw	S	5	41
Mexico City	C	21	70	New York	F	16	61	Rio de Janeiro	C	30	86	Tangier	T	20	68	Washington	F	16	61
Miami	S	26	79	Nice	F	21	70	Rome	F	20	68	Tel Aviv	S	27	82	Zurich	C	6	43

Temperatures at midday yesterday C–Cloudy Dr–Drizzle F–Fair Fg–Fog H–Hail R–Rain S–Sunny Sl–Sleet Sn–Snow T–Thunder

FINANCIAL TIMES
COMPANIES & MARKETS
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INSIDE

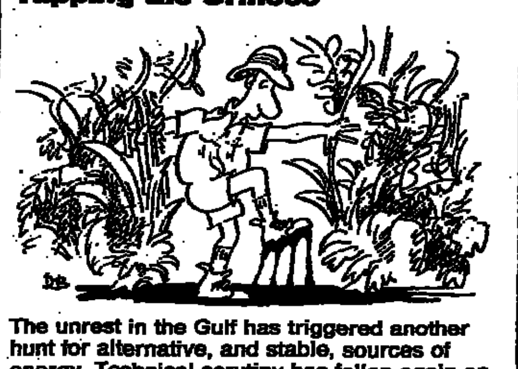
Union Carbide falls 35% in third quarter

The Gulf crisis has dealt a sharp blow to third-quarter income at Union Carbide. The chemicals group suffered a 35 per cent drop in net income as rising oil prices pushed up the cost of its raw materials. However, chairman Robert Kennedy (left) pointed out that the effect of rising oil prices had been mitigated by improved sales volumes and strong performances in some parts of the business. Page 24

Turkey's troubled private life

Since its birth in 1984, Turkey's privatisation programme has been beset by problems beyond the authorities' control, from the stockmarket crash to the Gulf crisis. Some bankers believe the scheme could provide a serious digestion problem for Istanbul's still emerging stockmarket. But tomorrow the programme gets back on the rails, reports John Murray Brown. Page 24

Tapping the Orinoco



The unrest in the Gulf has triggered another hunt for alternative, and stable, sources of energy. Technical scrutiny has fallen again on finding productive uses for Venezuela's vast black oil-tar deposits in the Orinoco river basin. With half the world's recoverable oil reserves in this super-heavy category, the oil industry may be faced with a significant technological development. Page 32

Dogfights over Korea

The South Korean travel boom, unleashed by the removal of restrictions last year and the 1988 Olympics, has turned into a vicious dogfight between Korean Air and the fledgling Asiana Airlines. Poaching of pilots and bitter competition has intensified as the Korean government decides how to divide routes between the two carriers. Page 26

Riddle of al Rayan buyer

The latest stage in the long-running Egyptian financial scandal has seen approval for the takeover of the ailing al Rayan investment company whose owners were accused of defrauding investors of $716m. But the identity of the new Egyptian owners has not been disclosed. Many of the 187,000 depositors who invested their life-savings in al Rayan during the 1980s are already complaining that they will be repaid at the exchange rates prevailing in 1988 – the year the company's activities were frozen. Page 28

Market Statistics

Companies in this section

Chief price changes yesterday

FRANKFURT (DM)							
Rises				Rises			
MAN	386	+	10	L'Oreal	523	+	13
RWE	411.5	+	3.5	Suez	314.5	+	4.1
Falls				Falls			
Daimler	613.9	–	8.1	Casino	131	–	4
Deutsche Bk	625.5	–	4	Pechin	129	–	4.1
Siemens	586.4	–	2.6	Soc Gen	389.8	–	10.2
Volkswagen	386	–	9.1	St Gobain	392	–	9.5
NEW YORK ($)				TOKYO (Yen)			
Rises				Rises			
Conner Per	21⅝	+	1⅝	Fujita Corp	1550	+	100
Freddie Mac	33½	+	⅞	Keai Elec R'way	1670	+	110
MCI	29¼	+	1⅛	Sato Kogyo	1750	+	30
Falls				Sumitomo Metal	520	+	10
Apple Comp	31⅛	–	¼	Yasuda Fire	941	+	51
Gen Elec	53¾	–	1⅞	Falls			
Gt Lakes Ch	54	–	2¼	Kobe Steel	552	–	8
PARIS (FFr)							
LONDON (Pence)							
Rises				Canning (Wm)	88	–	8
ABPorts	214	+	7	Cookson	68	–	2
Barclays	362	+	5	Euro Disney	610	–	14
B'ham Mint	83	+	23	First Nat Fin	176	–	12
Brent Walker	70	+	4	Hammerson 'A'	550	–	8
Highland Dists	232	+	7	Liberty N/V	220	–	15
Hunterprint	23	+	5	News Intl	99	–	3
Midland	203	+	9	Slebe	257	–	10
Tiphook	384	+	11	Stomgard	24	–	9
Unilever	658	+	6	Wace	186	–	6
Waterglade	40	+	10	Yorks Radio	150	–	15
Falls							

Philips and Du Pont end CD joint venture

By Ronald van de Krol in Amsterdam and Michael Skapinker in London

PHILIPS of the Netherlands and Du Pont of the US are to unravel their four-year-old joint venture for the manufacture of compact discs (CDs) and professional discs. Philips will acquire the consumer side of the business and both partners will dispose of the venture's professional disc operations.

Philips intends to sell parts of the consumer disc operation – which includes CD manufacturing plants – to PolyGram, its London-based, 80 per cent-owned recorded music subsidiary.

The ending of the joint venture follows a restructuring of Philips's semiconductor and computer divisions, which will result in the loss of 8,900 jobs. Philips said earlier this month that it would develop computer systems based on its expertise in professional disc technology.

Philips denied that yesterday's move meant it was abandoning professional discs. It was, however, calling a halt to the in-house manufacture of the discs, which until now has been the joint venture's most heavily loss-making area. These products are used for data storage by professional users in the business, legal and medical fields.

Analysts welcomed Philips's decision to end in-house manufacture. They said it was in line with plans announced by Mr Jan Timmer, the group's president, to concentrate on profitable areas and either pull out of loss-making businesses or buy in supplies from other manufacturers.

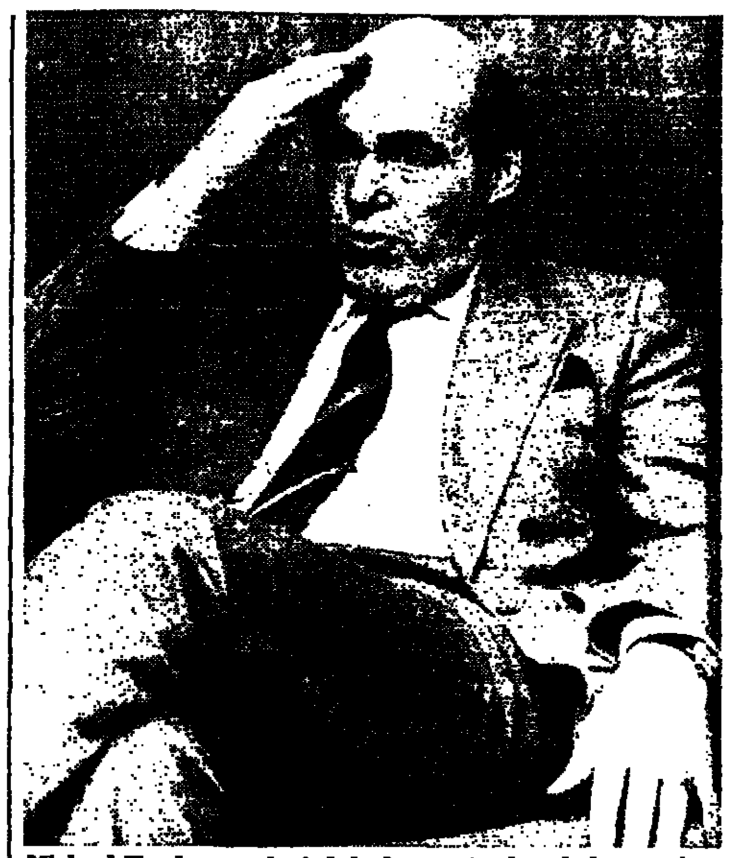
Philips said the two partners had decided to disband the joint venture because growth on the professional side had not met expectations and because Du Pont had little interest in the consumer applications of disc technology.

The joint venture with Du Pont employs 3,600 people in Europe and the US and posts annual sales of $325m, of which the consumer side accounts for $250m. The consumer business, with 3,000 staff, is profitable but these profits have been more than offset by unspecified losses in the smaller professional sector.

The joint venture has three European manufacturing plants for CDs – in Hanover, Germany; Blackburn, UK; and Louviers, France. It also has a US factory in Kings Mountain, North Carolina. PolyGram has not said how many of these operations it would like to acquire. Manufacturing facilities for professional discs are concentrated at Philips' headquarters in Eindhoven.

For PolyGram, the purchase of the consumer business would mark its return to in-house CD production. It formerly owned the German plant before selling it to Philips in 1986.

Mr David Fine, Polygram's president, said that controlling a significant portion of its own disc supply could have big advantages for the group given the large scale of manufacturing demand.



Michael Henderson: denied deal was at a knock-down price

Polly Peck pins hopes on Nadir for last minute escape

By Clay Harris, Richard Waters and Stephen Fidler in London

POLLY PECK International now accepts that administrators could be appointed tomorrow unless Mr Asil Nadir, the chairman, engineers a last-minute escape.

Mr David Fawcus, deputy chief executive, admitted yesterday that Mr Nadir needed to obtain £30m ($58.5m) in cash from northern Cyprus on his current visit if Polly Peck were to hold off its creditors.

Banks on the steering committee co-ordinating Polly Peck's creditors said yesterday that their patience with the company was exhausted. The company had outstanding borrowings of more than £1bn at the end of September.

Polly Peck had also failed to produce the cash from Cyprus that it had promised when the creditors agreed on October 12 to extend a standstill on debt repayments until November 9. That had hardened attitudes among banks which had previously been content to allow it more breathing space.

One member of the steering committee described Polly Peck's position as "as bad as you can possibly imagine. If something substantial doesn't happen by Wednesday, then that's pretty much the end of it."

Mr Fawcus, however, was not ready to despair: "It depends on how much money comes in," he said. "If the banks see money coming in, their position is going to change."

Asked how much money was needed to stave off administration this week, Mr Fawcus said: "The figure is not specified, but it's somewhere around $50m to $60m (£25.6m to £30.7m)."

At a meeting yesterday morning, the steering committee of nine banks and Legal & General, the insurance company, agreed to delay any action until later in the week.

Administration, an insolvency procedure involving the appointment of independent administrators to run the group, would give Polly Peck protection from its creditors long enough to allow for a reorganisation of the company or an orderly disposal of its businesses and assets.

Polly Peck owns the US-based Del Monte fresh pineapple and bananas business, other fruit-trading operations, consumer electronics companies in the Far East and Turkey and hotels in northern Cyprus and Turkey.

Hawks gather, Page 30

Companies lose way in commercial paper chase

Stephen Fidler looks at the stagnation of one of London's most esoteric financial markets

THE ANNOUNCEMENT by S G Warburg, one of the largest dealers in commercial paper, that it is pulling out of the London CP market is another sign of the stagnation that has hit one of the more esoteric of London's financial businesses.

It underlines a narrowing in the financing options facing companies which have become accustomed to seeking short-term liquidity through issuing these corporate IOUs.

The beneficiaries of this change will be the commercial banks. They are already finding that some of their less-highly rated customers can no longer issue commercial paper and are returning to them for more short-term funding, rather than to the anonymous CP market.

This may be no bad thing. In several recent cases, including the financial crisis at Polly Peck, the stricken UK fruit trading concern, dependence on commercial paper has increased a company's financial vulnerability.

In the commercial paper market, short-term corporate IOUs are sold to investors through a group of securities firms and banks. The rapid growth of such markets in Europe during the 1980s followed the discovery that companies could often borrow more cheaply from the securities and paper markets than they could from their traditional bank lenders.

Both in the unregulated Euro-commercial paper market – where US dollar paper trades outside the control of the US authorities – and in the sterling commercial paper market, opened by the Bank of England to a limited group of borrowers in 1986, there was less emphasis on the credit quality of the borrowers than in the US.

The US emphasis on credit quality stemmed from its experience of the painful consequences of default in the commercial paper market. As a result, only issuers carrying a rating from a recognised agency can use the US market; and only then if there is a standby bank credit in case, for whatever reason, investors decide to shun the paper.

In contrast with the US, much of the commercial paper sold in Europe, particularly for lower-quality issuers, was being placed with banks. The CP market contributed to a general loosening of relationships between companies and their bank lenders. Long-standing links between banks and their corporate clients were breaking down to be replaced by transactional banking, where a company did business with the financial institutions which offered it the lowest cost. Lending costs were pared to levels at which it could not be economic for banks to lend.

Most blue chip companies may not notice the tightening of credit quality criteria in the CP market, except perhaps for a modest rise in the cost of funding. But many others, particularly those labouring under heavy debt or those which have been less cautious in their borrowing programmes, may suffer significantly.

According to bankers familiar with the company, Polly Peck International is an example of one borrower which followed quite legal but sloppy practice in its commercial paper programme. For example, the company failed to establish a standby line of credit in case investors refused to roll over the paper when it matured.

This would not have been allowed in the US. In the event, Polly Peck had £46.5m ($90.6m) of paper outstanding when a debt standstill was declared by the banks late last month. One result is a proliferation of creditors who are holding this paper, any one of which may decide to insist on its legal rights and pull the plug on the company. The company's problems have not been helped either by the lack of one or more banks with close ties to the company.

The Polly Peck bank lending standstill has brought up other issues. Because the paper is usually issued at a discount and redeemed at face value, commercial paper holders are at a potential disadvantage to other creditors, who can lay claim to interest payments which stack up daily.

Since commercial paper investors are usually unsecured and often have small amounts at stake, their interest in keeping a company afloat may be weaker than for larger bank creditors.

Yet, despite these now evident drawbacks, up to 40 dealers were aggressively pushing the product to all types of borrowers from 1985 onwards. More than a quarter of the hundreds of CP fund-raising programmes announced are now moribund as investors emphasise quality.

The rewards to dealers, while having increased recently, are still paper thin. A dealer traditionally makes his money through the turn, the difference between the price at which he buys or sells the paper. Dealers reckon the turn averages about 3 basis points a year. If the paper carries a one-month maturity, this means it has to be placed 12 times to earn that fee.

With outstandings in European CP stagnating at about $70bn, total annual gross income to all dealers is as little as $21m. The rewards in sterling commercial paper, where paper outstanding amounts to just over £5bn, are even smaller.

Not surprisingly, dealers have been withdrawing. Late last year, Merrill Lynch, one of the largest dealers, pulled out. The announcement that Warburgs, the UK merchant bank, is to withdraw will probably set other dealers thinking.

"The fact that a dealer with the visibility of Warburgs is pulling out is going to make others consider whether they want to be in the business," says Mr Mike Niedzwiecki of Citicorp, a leading dealer in the business.

Commercial paper markets in Europe are beginning to look more and more like their US counterpart. Only borrowers with suitable credit ratings and standby credits to back up their programmes are likely to find the market a reliable funding source.

Many companies, from the UK and elsewhere, have already been forced to find alternative sources of funds; still others will be forced to. A lot are now trying to rebuild their tattered bank relationships. All this may happen without disrupting a company's access to credit, or it may not. There is no sign either, despite the US experience, that the CP markets are going to be the flash point for financial crisis. None the less, the limitations of yet another financing fashion that swept Europe in the 1980s are becoming starkly evident.

Cookson to sell Tioxide stake to ICI

By Clive Cookson in London

COOKSON, the heavily indebted British industrial materials group, has agreed to sell for £160m ($314m) its 50 per cent stake in Tioxide, the pigments manufacturer, to ICI, its partner in the joint venture.

Last year, Tioxide made a pre-tax profit of £200m on sales of £700m. Therefore the price paid by ICI is only 2.4 times historic earnings.

The first reaction of some analysts was to call the deal a distress sale at a knock-down price. But Mr Michael Henderson, chairman and chief executive of Cookson, rejected that description. He said Cookson had several reasons for selling the stake now, as part of its programme of cutting borrowings.

- Tioxide faces a capital expenditure programme of several hundred million pounds over the next five years, to strengthen its environmental controls and introduce new technology.
- The decline in Tioxide's trading performance this year "has been unexpectedly severe".
- The longer term outlook for the titanium dioxide business in the 1990s has also deteriorated significantly. This would "necessitate a major cost reduction programme at Tioxide together with a write-down of assets".

The deal will increase ICI's exposure to cyclical bulk chemicals – contrary to the group's stated long-term policy of focusing increasingly on specialist products that are less affected by the business cycle.

But ICI sources said that the opportunity to acquire sole control of Tioxide for only £160m represented an irresistible bargain.

"There's a price at which ICI are prepared to invest in a cyclical business," said Mr John Reynolds of Schroders, the merchant bank advising ICI. "And there's a difference between buying in 50 per cent of a joint venture and buying an entirely new business."

Mr Reynolds said the deal was "earnings neutral for ICI at this stage of the cycle". The benefits would accrue to the profit and loss account later on, he said.

"It does look as though Cookson's hand was forced," said Mr David Ingles, chemicals analyst at James Capel. "ICI have got Tioxide very cheaply indeed. But Cookson will feel more comfortable after the disposal. I think they will seek further disposals – there are some metals businesses which are not core holdings – and this will give them the confidence to negotiate more toughly."

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Lucas in £150m diesel investment

By Paul Cheeseright, Midlands Correspondent

LUCAS INDUSTRIES, the UK supplier of systems and components for the aerospace and automotive industries, is to invest £150m ($297m) over the next five years on manufacturing plant in France, Spain and the UK for diesel engine injection systems.

The announcement yesterday from the Midlands-based company came against the background of annual figures flattened out not only by the problems of the motor market but by currency movements and the uncertainties springing from the Gulf crisis.

Pre-tax profits for the year to last July were just 2 per cent higher than a year before at £191.2m on a turnover up seven per cent at £2.33bn. The figures were within the broad range of market predictions but shivers of concern about the prospects for the current year were enough to hold the share price down to 117p, a gain of 3p on the day.

Lucas's operations are now sufficiently spread internationally to shield it from the problems of the UK economy. The main issue for its aerospace business is not the level of demand but fulfilling the orders it already has on its books; the group expects the market in its current phase to peak in 1992-93.

But on the automotive side, falling car registrations in the UK, France, Italy and Spain have put the market in the doldrums. The solace for Lucas is the resumed growth of diesel engine sales where it has invested heavily in the development of new fuel injection systems.

Its factory investment programme is designed to exploit that growth, on the assumption that the environmental pressures for cleaner vehicle engines will increase demand for its injection systems. In the UK, a new plant at Stroud, Gloucestershire, will provide 380 new jobs with the next five years.

Although the high level of sterling adversely affected Lucas' £381m UK exports in the last financial year, the group is relaxed about the UK's adherence to the exchange rate mechanism of the European Monetary System. "We have no complaints, mainly because to have any would be futile. At least, we can be reasonably sure what exchange rates will be," said Mr Eric Gill, the chairman.

The main concern now is the fluctuation of the dollar, the currency in which aerospace sales are denominated. Last year currency fluctuations cost Lucas £27m in sales and £1.5m in pre-tax profits.

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Union Carbide falls 35% as Gulf crisis raises costs

By Martin Dickson in New York

UNION CARBIDE, the chemicals group, suffered a 35 per cent drop in third-quarter net income as increasing oil prices in the wake of the Gulf crisis raised the costs of its raw materials.

The company reported net income of $91m compared with $139m in the period last year, on net sales of $2.2bn, up from $2.14bn. Earnings per share were 63 cents, down from 98 cents.

Mr Robert Kennedy, chairman, said the effect of rapidly increasing oil prices had been mitigated by improved sales volumes in chemicals and plastics, raw material flexibility and a continued strong performance by the industrial gases business.

But he warned that "additional feedstock cost increases, coupled with general economic weakness, will result in further pressures on margins and the need for continuing controls on capital spending and costs".

The figures included the cost of a loss of power in August at one of the company's US plants, which is estimated to have clipped 4 cents from earnings per share.

There was a 9 cents-a-share gain from the sale of a polysilicon business, partially offset by non-recurring charges totalling 7 cents a share from cost reduction programmes. Third-quarter 1989 earnings included a non-recurring gain of 5 cents a share.

Operating profits in the chemicals and plastics businesses, which suffered reduced selling prices as well as higher raw materials costs, dropped from $235m to $168m on sales little changed at $1.34bn. Industrial gases saw profits increase to $118m from $76m on sales up to $692m from $595m.

BCP confident of winning CISF as deadline passes

By Peter Wise in Portugal

BANCO Comercial Português (BCP), Portugal's leading private bank, said it would not raise its offer for a controlling stake of CISF, the country's second-biggest merchant bank, as the deadline for changing the bid ran out yesterday.

The move signalled that BCP was confident its offer would be accepted by shareholders representing at least 43.5 per cent of CISF's capital, the minimum required for the bid to go ahead.

If sufficient sale orders are placed by November 5, the public bid session will be held on the Oporto Stock Exchange on November 8.

BCP, Portugal's largest quoted company, also announced yesterday a 103 per cent increase in pre-tax profits to Es13.2bn ($95m) for the first nine months of 1990. Cashflow increased 93 per cent to Es17.1bn. Earnings per share increased 38 per cent to Es199.4.

Mr Jorge Jardim Goncalves, chairman, said the bank planned to extend its branch network from just more than 100 branches to about 170 by December.

Observers see BCP's bid for CISF, which has played a prominent role in Portugal's privatisation programme, as an attempt to find a short cut into the corporate financing and privatisation markets, given that attempts to foster merchant banking within BCP's corporate structure have proved unsuccessful.

Some CISF shareholders have expressed dissatisfaction with BCP's offer price of Es2,350 a share – a premium of 20 per cent on the last quotation of CISF stock on September 14. Shares were withdrawn from trading following BCP's bid.

However, analysts calculate that many of CISF's shareholders will accept as an opportunity to realise capital gains.

Sasib moves to third in world rail signal league

By Haig Simonian in Milan

SASIB, the fast-growing industrial group controlled by Mr Carlo De Benedetti, has bought General Railway Signal (GRS), the railway and underground transport signalling subsidiary of General Signal of the US.

The deal means that Sasib, which is also active in the food packaging sector, will more than double its sales in the railway signalling business, becoming the world's third-biggest supplier.

The acquisition will boost the strong position of Italian companies in the sector, following last year's purchase by Ansaldo of Union Switch and Signal.

GRS, based in Rochester, New York, has almost 30 per cent of its domestic market and about 40 per cent of that for mass-transit systems. It is also strongly represented abroad through subsidiaries in Holland, China and the Far East.

Sales this year are expected to exceed $80m. Recently, the company won a $50m deal to supply signalling equipment for a new underground railway system in Taiwan.

The deal will further push Sasib's group sales, which are set to reach at least $500m this year.

No price has been disclosed for the deal, on which Sasib was advised by Wasserstein Perella.

Insurer on course to meet forecast

UNION des Assurances de Paris (UAP), the French state-controlled insurer, yesterday reported a 35.1 per cent rise in first-half attributable net profit to FFr3.34bn ($540m), Reuter reports. UAP said the forecast it gave in spring of a 25 per cent increase in 1990 profits from FFr3.42bn in 1989 remained valid.

Consolidated turnover – which covers only UAP's insurance and reinsurance business – was FFr49.4bn, a rise of 57.5 per cent from the first half of 1989.

Turkish privatisation train rolls once more

Problems have stalled the sell-off plan which began in 1984, writes John Murray Brown

Turkey's stalled privatisation programme gets back on the rails tomorrow with the sale of the first of three small cement companies, which together are expected to raise about TL150bn ($54m).

Mr Okkes Ozuygur, chairman of the government-run Public Participation Fund which co-ordinates the privatisation programme, says the offer will test market confidence prior to the proposed sell-off of Turk Hava Yollari, the state airline, this year and a global offering of Petkim, the petrochemicals complex, planned for 1991.

Shares in Konya Cement Factory go on sale today, followed by the Unye and Mardin cement companies in early November. The state's majority stake in the companies will be sold under a public offering, handled by more than 500 bank branches throughout Turkey.

The authorities are adopting a cautious approach. A court case is still pending over the controversial block sale last year of five cement companies to Ciments Français, the French group.

In April, Turkey's administrative court upheld a suit from opposition members of parliament ruling that the sale contravened the terms of a 1987 decree on privatisation which gives priority to domestic buyers. The French company is appealing. Mr Ozuygur insists it is a technical problem which will not frighten off foreign investors.

Since its beginning in 1984, Turkey's privatisation has been beset by problems beyond the authorities' control, from the world stock market crash in 1987 to the Gulf crisis. Some bankers believe the scheme is too ambitious, and if implemented could provide a serious digestion problem for Istanbul's emerging stock market.

Turkey's 55 state enterprises dominate the economy, accounting for about 30 per cent of industrial output in

Okkes Ozuygur: sales have met legal snags and scepticism

Turkey and 60 per cent of public investment. They cover everything from public utilities to trading and banking.

The companies are notoriously inefficient and overstaffed. According to the latest Treasury figures, the state enterprises recorded losses of TL53.2bn in the first six months of 1990.

The impact of privatisation on the Budget so far has been marginal. Mr Ozuygur says the programme has raised TL1000bn since the start of 1990. The proceeds are channelled by the PPF into infrastructure work such as housing. But the funds are not included in the Budget, and economists argue they merely fuel the budget deficit.

The programme has not been universally popular with the public either. This month the PPF had the galling experience of having to buy back some of the 8 per cent of Petkim stock it sold through a public offering last June.

Officials confirmed that the fund bought TL100bn worth of shares just to maintain the original offer price, after bondholders with share options dumped stock on the market.

Also this month, the stock exchange briefly suspended trading in Cukurova Electrik, another recent flotation. Heavy buying started after rumours that the company was about to revalue its dams and other assets, a common practice for Turkish companies trying to keep abreast of inflation. On this occasion, however, the Ministry of Finance intervened, saying the dams supplying the company were government property.

The PPF's next task is to sell the giant Sumerbank corporation, which makes and sells textiles, ceramics and shoes. Following a report by the stockbroking firm Barclays De Zoete Wedd, the PPF is expected to privatise the group's retail outlets and sell some of its property.

The main challenge will be finding a home for the holding company, which with 37,000 employees would dwarf any private Turkish group. As with Petkim and the large cement companies, the PPF will probably end up looking for a foreign buyer.

Milan bank buys 5% of Continental

By Haig Simonian in Milan

ANOTHER 5 per cent stake in Continental, the German tyres group currently subject to a takeover proposal by Pirelli, the Italian tyres and cables group, is now in hands sympathetic to Pirelli.

Sopaf, a small Milan merchant bank controlled by Mr Jody Vender, said yesterday it had bought 5 per cent of Continental's stock for L99.4bn ($84.9m) during this month. Earlier in October, Mediobanca, the powerful Milan merchant bank which has regularly advised Pirelli, said it had spent L104bn to buy a similar stake.

Pirelli has said its merger is supported by a majority of Continental's shareholders, although it has yet to provide details.

Nevertheless, with its own 5 per cent and the 1 per cent in Continental held by Merrill Lynch, which is also advising Pirelli on the deal, 16 per cent of Continental's stock is now known to be in hands sympathetic to Pirelli's plans.

Inco earnings fall by a quarter

By Bernard Simon in Toronto

LOWER nickel prices, a fall in shipments and greater production costs pushed earnings of Inco, the world's leading producer of the metal, down by almost a quarter in the three months to September 30.

Net earnings of the Toronto-based company slid to US$97m or 92 cents a share, from $129.3m or $1.23 a share a year earlier. Operating earnings fell more sharply to $199m from $274m. Sales were down to $763.6m from $848.7m.

The average price realised for primary nickel fell to $4.46 a lb, down from $5.28. The average price for the first nine months of the year was $4.03 a lb, down from $5.96. Nickel deliveries fell to 116m lbs in the third quarter, from 120m lbs a year earlier. Nine-month deliveries were down to 364m lbs from 380m lbs.

Inco also produces gold, silver and platinum-group metals. Increased precious metal prices partially offset the set-back in nickel earnings.

There was a sharp fall, to $5m from $19m, in operating earnings from alloys and engineered products, ascribed to reduced deliveries and lower prices. Earnings in 1989 were boosted by a gain of $5.8m from property sales.

Nine-months earnings dropped to $368.6m from $601.3m, including a second-quarter gain of $112m from the sale of a 20 per cent interest in Inco's Indonesian subsidiary.

Nordstjernan slips despite higher sales

By John Burton in Stockholm

NORDSTJERNAN, the Swedish property and construction group, yesterday reported a 45 per cent fall in profits after financial items to SKr432m ($74.8m) for the first eight months of 1990, while sales rose by 2 per cent to SKr15.5bn.

Nordstjernan blamed the lower profits almost entirely on poor results from its subsidiaries, such as the stainless steel manufacturer Avesta, the department store NK and the industrial concern Kamyr, that are outside the parent group. It predicted that profits for 1990 will be lower than last year's figure of SKr1.1bn.

Extraordinary income amounted to SKr528m due to the sale of its subsidiaries, Databolin and Hedemora Separation, and the merger of the Johnson passenger line with Finnish ferry group Effoa. The new Effjohn company yesterday reported a 42 per cent decrease in profits after financial items to SKr198m for the eight-month period.

Nordstjernan is restructuring, increasing activity in the construction and property sector while divesting in non-property areas. Its construction division NCC had a profit rise of 10 per cent to SKr504, while earnings from its property holdings increased by 31 per cent to SKr71m.

Esab ahead by 14% to SKr273m

By Robert Taylor in Stockholm

ESAB, the world's leading welding equipment maker, yesterday announced a 14 per cent improvement in profits after financial items for the first nine months of the year to SKr278m ($47m) from SKr239m in the same period of 1989.

Orders rose by 42 per cent to SKr5.29bn while invoiced sales increased by 50 per cent to SKr5.24bn.

The company said it expected results for 1990 to be lower than last year when they rose by 46 per cent.

It pointed out that the 1989 performance was lifted in part by particularly good results from Brazil during the fourth quarter.

Esab also pointed out that the outlook for welding and grinding equipment in Europe was mixed with strong demand in central and southern Europe with a weaker performance in Britain, Finland and Sweden.

It added that the US market had been stable.

Reebok falls 18% in third period

By Karen Zagor in New York

REEBOK International, the sports shoe maker in which Pentland Industries of the UK holds a 31 per cent stake, yesterday reported an 18 per cent decline in third-quarter net income to $41m, or 36 cents a share, from $49.9m, or 44 cents a year earlier. Sales were $588.9m, against $524.5m a year ago.

Mr Paul Fireman, chairman and chief executive, said the results "were slightly better than previously estimated due to higher shipments than anticipated at several divisions, but especially at Reebok's International division. The decline in US sales of Reebok brand footwear was also somewhat less than expected."

In September, Reebok said it expected third-quarter per-share earnings to fall to between 33 and 35 cents, reflecting lower US sales and higher advertising and promotional expenses.

Shares in the company, which were unchanged at $10¼ at mid-day yesterday, have fallen sharply since June, when they were changing hands at about $18.

At that time, Pentland said it would sell its stake in Reebok. However, when Reebok's stock fell to about $13¾, Pentland decided not to market the block until Reebok's share price improved.

For the first nine months ended September 30, Reebok's net income slipped 2 per cent to $137.1m or $1.20 a share on sales of $1.67bn from $140m or $1.23 on sales of $1.44bn last year.

Flat quarter for Marsh & McLennan

MARSH & McLennan, the world's largest insurance broker, yesterday reported third quarter net income of $74.6m, virtually unchanged from the $73.5m made in the same period of 1989, writes Martin Dickson in New York.

But the company, which has been suffering from a pricing downturn in the property-casualty industry, said that while premium rates ranged from flat to downward, price stability was approaching.

Revenues in the quarter rose from $607m to $682m, with insurance services up from $346.1m to $379m, while the group's increasingly important consulting arm rose from $192m to $231m.

Time Warner held back by expenses of merger

By Alan Friedman in New York

TIME WARNER, the debt-laden media and entertainment conglomerate that controls Time Magazine and Warner Brothers in Hollywood, yesterday unveiled a $51m third-quarter loss, against a pro forma loss of $124m last time.

This brings the total losses for the first nine months of 1990 to $193m on nine-month revenues of $8.2bn.

The loss per share in the latest third quarter was $4.05.

The company continues to have underlying profitability from its film, recorded music, cable television, publishing and other interests, but is saddled with a $10.8bn debt burden that keeps the company in loss at the bottom line.

The debt relates to last year's merger of Time and Warner and continues to be a drag on the company, which has been charging off related interest expenses and amortisation costs each quarter.

Mr Steve Ross, chairman of Time Warner, has tried to put a brave face on the debt problem, but the company's share price yesterday was just $70⅞, which while up by $1¼ is still a far cry from the 1990 trading range of $183 to $213 made by Time Warner's investment bankers at the time of the merger.

The company is exploring ways of raising cash by forming joint ventures in the cable or film production business with European and Japanese partners.

Profits before interest, taxes, depreciation and amortisation amounted to $548m in the third quarter. Total third-quarter revenues were $2.9bn, against $2.66bn on a pro forma basis.

Operating income from the magazine division was $38m, down from $41m on a pro-forma basis for last year; the company said advertising and circulation was higher this year and attributed its lower profit to substantial start-up costs at Entertainment Weekly, a new downmarket entertainment magazine.

The filmed entertainment business provided a record $140m profit, up by 36 per cent year-on-year and helped by domestic revenues from films such as Presumed Innocent.

The recorded music division turned in $109m of operating profits, against $108m last year. Cable television produced $198m of profits, up by 20 per cent, while the HBO programme division had slightly higher earnings of $45m against $42m.

Warner back in Pathe picture

By Alan Friedman

MR GIANCARLO PARRETTI, the controversial Italian financier who has until today to complete a $1.3bn takeover of MGM/UA, the Hollywood studio, was yesterday producing yet another cliffhanger in the seven-month corporate saga.

Wall Street and Hollywood were abuzz with rumours of a fresh delay by Mr Parretti as it emerged that Warner Brothers had stepped back into the picture to negotiate a global home video rights deal with Mr Parretti's Pathe Communications, the vehicle for the MGM/UA takeover.

News of the possible return of the Time Warner media and entertainment group came after Turner Broadcasting, the Atlanta-based cable empire, agreed on Sunday to pay an estimated $200m to Mr Parretti's Pathe Communications to license for television about 1,000 films in the UA library of titles.

The 10-year Turner deal is a partial substitution by Mr Parretti of Time Warner, which last July backed out of plans to put up $650m in loans toward the MGM deal in exchange for world distribution rights to the UA library.

The Turner transaction, subject to Pathe's consummation of the MGM takeover, complements Turner's 1986 purchase from Mr Kirk Kerkorian, who owns majority control of MGM/UA, of 3,300 titles from the MGM library. Time Warner owns 17 per cent of Turner Broadcasting.

Time Warner in July launched a $100m lawsuit against Pathe, alleging breach of contract and breaking off its plan to lend Mr Parretti's company $650m for the MGM deal.

Pathe counter-sued for $500m, but executives close to the company say the lawsuits would be cancelled if a deal is completed involving the UA library and Warner's home video division.

Pathe has already paid some $353m toward the MGM/UA takeover, most of it as a non-refundable deposit on the acquisition. Some $4 per share – of a total $21.50 per share takeover bid – has been paid out to MGM/UA shareholders.

Steady three months for Arco

By Alan Friedman

ARCO, the Los Angeles-based oil and gas company, yesterday unveiled essentially unchanged third-quarter net earnings of $382m after stripping out special environmental charges and one-time gains relating to the sale of assets and an accident settlement.

The company's third-quarter net of $3.79 per share was $462m, compared with $379m or $2.19 in the same quarter last year. However in the latest quarter there was a special $88m gain from an offshore accident settlement and the sale of Arco's Norwegian assets.

For the first nine months Arco's net income was $1.45bn, compared with $1.55bn last year.

Third-quarter sales were more than $1bn higher at $4.8bn, while the nine-month revenue figure of $13bn, compared with $12bn in the first three quarters of 1989.

Mr Lodwrick Cook, chairman, said the third-quarter result reflected the rise in crude oil prices resulting from the Gulf crisis and the loss of crude and refined oil supply from world markets.

Arco's worldwide oil and gas exploration and production operations earned $395m after tax in the third quarter, up from $188m in the third quarter of 1989. Refining and marketing earned $138m, against $119m.

The Arco Chemical subsidiary saw its after-tax third quarter earnings drop to $49m from $78m a year ago as lower styrene margins and lower domestic volumes offset margin gains from propylene oxide and derivatives.

The third-quarter net also includes a $28m special before-tax charge related to the reduced volumes caused by the July 5 explosion and shutdown of an Arco Chemical Texas plant where several workers were killed.

Bidders for ENTel seek improved sale terms

By John Barham in Buenos Aires

NEGOTIATIONS over the privatisation of ENTel, Argentina's national telephone company, are deteriorating into a tense confrontation.

Government officials have reacted angrily to pressure from the two groups buying ENTel to improve terms of sale. President Carlos Menem has vowed to transfer ENTel to its new buyers by November.

However, sources close to the negotiations say the brinkmanship could wreck the privatisation. An Argentine businessman said: "The bidders know that the government is politically committed to privatising ENTel, so they are pushing for the best terms possible."

Officials have reacted by threatening to abort the privatisation or recall a consortium led by Manufacturers Hanover that had backed out this month. However, Bell Atlantic, a member of the Manufacturers Hanover consortium, said yesterday it would not return to the negotiating table.

The government has agreed to sell the company to two groups for $214m in cash and $5bn-worth of Argentine foreign debt certificates, making it one of the developing world's largest privatisation efforts yet.

However, it has also become one of the most troubled sales, following the retreat of Manufacturers Hanover, the ejection of Argentina's chief negotiator, Ms Maria Julia Alsogaray and seemingly interminable negotiations.

The two groups - one comprising the Spanish state telephone company and the other the French and Italian state telephone companies - are demanding higher telephone charges than the government is willing to concede.

Bankers Trust turns in profit

By Alan Friedman

BANKERS TRUST, the fifth largest US bank, achieved a third-quarter net profit of $170m, a respectable achievement in the present financial climate.

The net income compares with a $1.4bn loss in the same quarter last year, which was caused by a special 1989 provision for loan losses on Third World sovereign debt.

Stripping out last year's special loss provision, the 1990 third-quarter figure would be slightly below the level of earnings a year ago, which is still a reasonable result given the trend toward sharply lower earnings from most New York commercial banks.

Earnings per share for the third quarter were $1.98.

Bankers Trust said its non-performing real estate assets were $93m in the third quarter, which compares with $25m a year ago.

Mr Charles Sanford, Jr, chairman, said the bank was able to achieve strong earnings despite the difficult economic environment, thanks to the bank's risk management, global trading and fiduciary businesses.

On Wall Street the bank's shares were marked $⅛ higher yesterday morning to $33¼.

Varity to move headquarters

By Robert Gibbens in Montreal

VARITY, formerly the Massey-Ferguson company, has finally got its way and is to move its corporate headquarters to Buffalo, NY.

The company has signed an agreement with Canada's Federal and Ontario governments and the Canadian Autoworkers Union, freeing it from earlier commitments to keep its headquarters in Ontario.

In return Varity undertakes to keep 1,200 manufacturing jobs in Ontario until at least early 1993. Though it will close one Kelsey-Hayes vehicle parts plant in Ontario at a cost of 450 jobs, it will invest C$3.5m (US$3m) to modernise another Kelsey plant nearby.

Varity will pay C$21m to both governments as compensation for the workers laid off in the past, a further C$12m to settle claims by 1,500 workers who lost their jobs when Massey Combines failed in Ontario in 1988, plus C$5m into a wage protection fund.

Varity has tax loss carry-forwards of nearly US$1bn and has said these can be used more effectively in the US.

Mr Robert Rae, Ontario premier, said the deal was "the best possible and we did not want to spend the next 10 or 15 years in the courts fighting Varity".

Placer Dome puts a shine on its activities

Barbara Durr reports on the gold group's progress

Several months ago, Mr Earl Dunlop, chief of investor relations for Placer Dome, the Canadian gold mining group, went to a leading New York brokerage house to ask if it would begin to follow the company. "They didn't want to talk to me then," he says with a wry smile, "Now, they call me."

Placer Dome, the world's fourth largest gold mining company outside South Africa, has been attracting attention through a string of impressive acquisitions at home and abroad that have brought it rich, low-cost deposits. And, the sale of oil and gas assets has given it greater mining focus.

"They're doing all the right things," says Mr Warren Myers, a Merrill Lynch gold analyst.

Although the price of gold has had less of a boost from the Gulf crisis than many expected and considerable uncertainty persists about where the price will go, Placer Dome is concentrating on keeping its reserves up and its costs low.

The company, based in Vancouver, has developed five new gold mines in four countries since 1989 and acquired a slice of Eskay Creek in British Columbia, considered one of the hottest gold properties in Canada.

The company was also due to close its deal yesterday for all the shares of Continental Gold, whose principal asset is a 70 per cent interest in the Mount Milligan gold-copper property, also in British Columbia.

New mine development will cost about C$1.1bn (US$941m) by 1992, but these projects will reverse the decline in company reserves.

Placer Dome will produce an estimated 1.4m ounces of gold in 1990, up from 1.2m last year, at a cash cost of about US$230 per ounce. Production should increase to 1.65m ounces by 1992, a good way toward the company's goal of turning out 2m ounces per year.

Company production estimates are expected to be largely unaffected by protracted labour problems at its Dome mine in Ontario, which last year produced 12 per cent of its gold.

This month the company said it made its last offer to workers, on strike since May 7, and if this were not accepted by November 16, the mine would be closed.

If the offer is accepted, the mine will be upgraded at a cost of C$12m and restructured, with a reduction of 400 jobs.

The mine, which last year had a high cash operating cost of US$342 per ounce, has been producing during the strike at a reduced level. The Ontario troubles have been dwarfed not only by Eskay Creek and Mount Milligan but by two of Placer Dome's recent foreign acquisitions.

The Porgera mine in Papua New Guinea, which has just gone into production, is expected to be one of the top six non-South African gold producers in the world with 900,000 ounces annually.

Placer Dome has a 23 per cent net interest and is the manager. The cash cost of production at Porgera is calculated at just $105 per ounce for the first five years, and $150 per ounce over the 18-year life of the mine.

It is also about to move into the second stage of production at La Coipa in Chile, where it is a 50 per cent partner. La Coipa is due to produce 200,000 ounces of gold and 16m ounces of silver annually for the first two years. Over its 12-year life, the mine is expected to yield 2.2m ounces of gold and 114m ounces of silver.

La Coipa's bulky addition of silver to Placer Dome's take from its Mexico mine Real de Angeles is helping to make it one of the world's largest silver producers. The company expects to produce 15m ounces of silver per year by 1992.

Placer Dome, with 22 operations in seven countries, has established a reputation for being prepared to go where the deposits are good and the risks are considered manageable.

To offset the dangers of such a far-flung empire, it has obtained political risk insurance to cover half of its $700m exposure in Papua New Guinea and Chile. Should the worst occur, the balance at risk would be only 10 per cent of the company's gross assets.

Gold analysts are impressed with the company's global strategy. It has money in the bank, a sizeable exploration budget and one of the best development teams in the world, according to Mr Egizio Bianchini of Nesbitt Thomson Deacon in Toronto. Mr Anthony Petrina, Placer Dome's president and chief executive officer, also wins high marks as a top flight miner and manager.

Mr Bianchini believes Placer has been especially shrewd in choosing to build up its North American operations because these "shift risks to balance those in Papua New Guinea".

The company is looking sleeker, too, after the recent sales of its gas and oil properties in the US and Canada. The US energy operations were sold for a net gain of US$220m and the Canadian energy holdings for one of C$288.5m.

There are, however, a few blots in the Placer Dome notebook. It was unable to obtain a controlling share of Stikine Resources, which owns half of Eskay Creek.

Placer bought 45 per cent, but its competitor, Corona, also owns 45 per cent and effectively thwarted Placer Dome's attempt to place a director on the Stikine board this year. The battle for control does not appear to be over and could become a headache.

Placer Dome also had to take a writedown of C$8.7m in the first half on its share of the Big Bell mine in Western Australia, given lower revised ore estimates.

But for now these problems appear to do little to tarnish the company's shine.

INTERNATIONAL COMPANIES AND FINANCE

Dogfight in South Korean skies

John Ridding analyses a struggle over the spoils from an air travel boom

South Korean companies have always thought big. When Daewoo started building ships in 1978 it did so with the world's largest dry-dock. Samsung and Hyundai are currently spending $1.5bn apiece to enter the petrochemicals sector with state-of-the-art complexes.

Such boldness is now evident in the country's airline industry. Asiana Airlines, a fledgling carrier which started at the end of 1988, last month announced orders and options for 51 Boeing jets — including 18 Boeing 747s — with a total value of almost $6bn.

In so doing, the new airline dramatically upstaged Korean Air, already one of the 10 biggest in the world, which had announced orders for 23 Boeing 747-400s two months earlier.

Asiana's move signals its determination to expand rapidly. It sounds the death knell for the comfortable monopoly enjoyed by KAL since its creation in 1962 and brings another player to the increasingly competitive Asian skies.

But while travellers seem set to benefit from the competition, the rate of expansion in the industry and the roles of the two Korean carriers raise some difficult questions.

"Any company has to follow its own development plan," said Mr Kim Chang Shik, the transport minister. "But we have to take into account reality and the condition of the industry."

The ministry added that the government was surprised by the size of Asiana's order list and was still considering approval for the purchases.

Government policy has already played a significant part in the creation and development of Asiana. The granting of the licence for the airline to the Kumho group, Asiana's parent company, was influenced by the fact that Kumho is one of the few industrial groups based in the relatively underdeveloped and politically sensitive south-western province of Cholla.

Since then the government has awarded Asiana new routes to Japan, enabling it to expand beyond the domestic *market which is rendered* unprofitable by regulated, extremely low, fares. Flights to Bangkok, Taipei, and Singapore are expected to follow soon.

Not surprisingly, KAL expresses reservations about the expansion plans of its new rival. "The government has been far too accommodating in awarding routes, while Asiana is being much too hasty," said Mr Shim Yi Taek, senior managing vice-president of KAL's aerospace division.

Asiana presents a series of arguments to justify its ambitious plans. On the one hand the company points out that 24 of the aircraft on its latest order list are being purchased under option and reflect the large backlog and delivery delays at the world's commercial aircraft manufacturers.

"They don't really have much choice," said a rival airline company. "If they receive the increases in passenger demand and routes they are hoping for, they have to have the planes. They can always sell the options if the market is difficult."

The long period for the orders, with the last delivery to be made in 1999, also reduces the financing burden. "We will be receiving revenues from some of the aircraft before others are delivered, so the net borrowings will only be about $1bn," argued Mr Nam Soo Oh, general manager in the company's finance department.

At the same time, Asiana is confident about the prospects for passenger growth. "We expect Korean passenger revenue miles to grow by at least 11 per cent annually until the year 2000," says Mr Yong Tae Park, executive vice president of Asiana. "If we don't buy these aircraft then foreign carriers will come and take our market share."

South Korea is experiencing a travel boom, prompted mainly by the removal of travel restrictions. Until August 1987, only Koreans older than 45 could travel freely overseas and it was not until January last year that all age restrictions were lifted for tourists. The lifting of restrictions, combined with rapid growth in Koreans' disposable incomes, has resulted in a sharp growth in overseas travel.

The number of Koreans travelling abroad has increased from 725,000 in 1988 to almost 1.4m in the first eight months of this year. South Korea may also become an increasingly important regional airline hub. "Japan is overcrowded and many airlines see Korea as a gateway to China, once Peking decides to open up its skies," said a foreign airline manager in Seoul.

But in the short term at least, the growth of Asiana, and to a lesser extent KAL, faces several constraints. The most immediate is the rise in fuel prices caused by the Gulf crisis. "At the moment this is the biggest barrier to our business growth," said Mr Park. Mr Shim at KAL agreed.

"Right now we expect an extra $20m a month in costs. This means it will be difficult to make a profit at the operating level for the year."

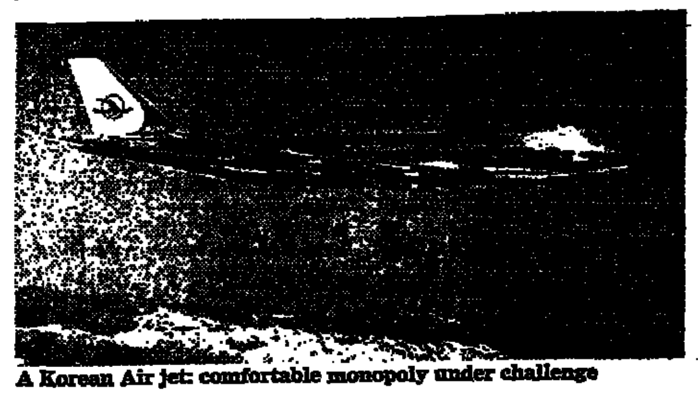
Competition from foreign carriers is also increasing, prompting lower yields on many routes. A number of US airlines, in particular North West and United, now operate many more flights through Korea, while European airlines, attracted by the 1988 Olympics and the potential of the market, have also been drawn to Seoul. KAL has used discounts to keep its market share.

Asiana will also suffer constraints arising from the availability of pilots. Many of the airline's current cockpit crews were recruited from the air force or from KAL. But an angered KAL has persuaded the government to prohibit the poaching of its staff while the availability of air force pilots is also falling. In response, Asiana has been forced to establish its own pilot training programme and hire foreign crews.

If tension arising from the poaching of pilots is easing, however, it is being replaced by rivalry for routes. "Asiana's success in this area is perhaps its most important challenge," said one industry analyst. The fixed costs of a Boeing 747, including financing costs, are between $6,000 and $7,000 per hour. "At that price you don't want them sitting on the tarmac," he said.

The Korean government is currently deciding on the best way to divide up routes between the two carriers.

The outcome is likely to be in favour of KAL on long-haul routes, but with new and extended regional routes going to Asiana. For most in the industry, such a division appears the best solution. But for Asiana it will represent at least a delay in its strategy of flying routes of all distances. It would also raise the question of what to do with the Boeing 747-400s currently on order and designed for long haul operations.



A Korean Air jet: comfortable monopoly under challenge

PASSENGER NUMBERS AND LOAD FACTORS OF AIRLINES SERVING KIMPO AIRPORT

Airline	Year	Passengers (000s)	Load factor (%)
Korean	1988	3,400	67.4
	1989	4,095	67
	1990 1st qtr	1,693	75
Aseana	1990 1st qtr	58	63.8
JAL	1988	266	57.5
	1989	1,004	77.7
	1990 1st qtr	561	71.5
Cathay Pacific	1988	266	57.5
	1989	288	63.6
	1990 1st qtr	128	73.8
North West	1988	650	40.1
	1989	1,063	43.9
	1990 1st qtr	454	63.5
United	1988	214	21.4
	1989	395	37.7
	1990	186	69.6
KLM	1988	14	32.2
	1989	13	57.2
	1990 1st qtr	7	62.1

Source:Korean Ministry of Trade and Industry

> **Not surprisingly, KAL expresses reservations about the expansion plans of its new rival. 'The government has been far too accommodating in awarding routes, while Asiana is being much too hasty,' said Mr Shim Yi Taek, senior managing vice president of KAL's aerospace division.**

NUMBER OF KOREANS TRAVELLING OVERSEAS

Year	Number
1988	725,176
1989	1.2m
1990 Jan-Aug	1m
1990	1.6m*
1991	1.9m*

*Forecast
Source: Korean Ministry of and Industry

Egypt approves al Rayan takeover

By **Tony Walker** in Cairo

THE Egyptian authorities have approved a $560m takeover of the ailing al Rayan investment company whose owners were accused of defrauding investors of $716mn.

The identity of the mystery purchaser of al Rayan's assets, which include property and retail outlets, has not been disclosed, beyond the fact that the new owner will be Egyptian. The purchaser has agreed to pay E£1.54bn ($551m) into a local bank by March 31.

The funds, in local currency, will then be distributed to some 187,000 depositors, many of whom had ploughed their life savings into al Rayan in the mid-1980s, attracted by offers of a more than 20 per cent return.

The al Rayan deal, signed in a Cairo court on Sunday by principals of the company and a lawyer representing the purchaser, marks another stage in the long-running saga that began in 1988 when the government belatedly recognised that it had allowed the free-wheeling deposit-taking sector to spiral out of control.

The authorities froze the activities of all investment houses pending an investigation into their affairs and introduction of a law to curb activities.

Investigations revealed widespread financial mismanagement and fraud.

It is not clear whether Sunday's agreement on a takeover of al Rayan will lead to the release from jail of the company's principals, including Mr Ahmed Tewfik Abdel-Fattah, the chairman. Mr Abdel-Fattah and associates were allowed to move out of a steel cage in the court for the signing ceremony.

Al Rayan was among about 100 deposit-taking companies made subject to Law 146 aimed at regulating the unruly sector. Many of these companies have been forced into liquidation. Only two have been allowed to continue operating, but are facing difficulties.

Al Rayan depositors are already complaining about the terms of the agreement, especially those who invested foreign currency. These investors will receive their funds in Egyptian pounds at the E£2.34 to the dollar exchange rate prevailing in 1988 — the year when the company's activities were frozen. The current rate is E£2.76 to the dollar.

Cerebos Pacific dampened

By **Joyce Quek** in Singapore

CEREBOS Pacific, the food group owned by Japanese distilling group Suntory, saw its performance dampened by a foreign exchange losses of S$25m (US$14.8m), its largest ever. As the figures were announced Mr John Bittleston, managing director and chief executive officer, resigned.

Cerebos said the strengthening Singapore dollar affected its performance, limiting growth in sales to 11 per cent at S$387.3m and trading profit to 9.8 per cent at S$68.9m.

Group profits rose due to the strengthening of the group's core businesses which were supported by strong contributions from associates. After-tax profits of S$38.9m were in line with its forecast. Dividends were raised to 5 cents.

Suntory bought the group in February from Rank Hovis McDougall, the UK foods group.

Mr Bittleston will be replaced by Mr John Skinner, director in charge of Australasian operations.

INTL CAPITAL MARKETS

Better than expected UK trade figures boost gilts

By Deborah Hargreaves in London and Karen Zagor in New York

A GOOD set of UK trade figures gave a fillip to the market for gilt-edged securities yesterday where prices jumped ahead by almost a full point.

Yesterday's data marked the first time for several months that the trade figures had been much better than expectations and the numbers also proved the most encouraging in the current round of UK economic data. They showed a current account deficit of £845m for September, against analysts' projections of £1.3bn, and following a deficit of £1.2bn in August.

Gilts prices were weaker at the opening of the market in response to investors' concern about the high level of wage settlements in the UK. But the release of the trade data soon added half a point to prices which remained strong for the rest of the day.

At the close of trading, a benchmark 11¾ per cent issue maturing in 2003/07 was 22 ticks higher at 101⅞ to offer a yield of 11.44 per cent. In the futures market, the long gilt contract rose from 83.18 to 84 during the course of the day.

GOVERNMENT BONDS

■ US Treasuries ended the day in a narrowly mixed range after moving lower in morning trading as profit-taking hit the market after overnight gains.

In late trading, the Treasury's benchmark 30-year bond was quoted 1/8 lower at 99 29/32 to yield 8.75 per cent after losing more than 1/2 at mid-session. Shorter-dated maturities were down about 1/16 point.

The Federal Reserve did not intervene in the open market and Fed funds, the rate at which banks lend to each other, ended the day at 7 11/16, below the perceived target of 8 per cent.

Lower oil prices gave bonds some support and helped offset the negative impact of the budget debacle. November crude oil was quoted down $5.41 a barrel at $28.38 in the afternoon, the biggest single-day move for a New York Mercantile Exchange crude contract. The fall in oil prices was triggered by unconfirmed reports that Iraqi troops had started to withdraw from parts of Kuwait. In addition, Monday was the last trading day in the November contract, and many long positions were uncovered yesterday morning.

In the foreign exchange market, the decline in oil prices combined with technical trading to help the dollar post modest gains yesterday. In late trading, the dollar was quoted at Y126.00 and DM1.5180, compared with overnight lows in Tokyo of Y125.70 and DM1.5020.

In the absence of any economic news of note, bond market trading was quiet yesterday. The budget accord, or lack of one, continued to exert a negative influence on the market. Although a stop-gap spending bill has been approved by the Senate and signed by President Bush, allowing the government to be financed until October 24 and extending the temporary debt ceiling of $3,195bn, a final deficit reduction package is still far from settled.

■ JAPANESE Government bonds traded in a narrow range, but continued to firm despite a weaker yen. The drop in the oil price is offering strong support to the Japanese market where the yield on the 119 benchmark has now fallen to 7.71 per cent.

Traders report heavy buying from pension funds at the shorter end of the market – three- to four-year bonds – which is lifting up prices along the yield curve. The healthy market conditions look like supporting a successful auction of November bonds on Wednesday.

Traders are looking for the Ministry of Finance to establish a benchmark bond with the November issue which could be made by reopening an existing issue. Many market participants are hoping for a reopening of September's 133 bonds which carried a coupon of 7.3 per cent.

However, others believe the MoF could achieve cheaper funds amid the market's current strength and that it is more likely to offer a coupon of 7.1 or 7.2 per cent. If this happens, traders will be disappointed and look to December for the establishment of another benchmark since the amount of 119 bonds in the market are drying up.

The MoF could also go for a smaller tranche of bonds on Wednesday, perhaps in the region of Y600bn to Y700bn since its funding requirements are not so great towards the end of the year.

■ IN GERMANY, the bund market experienced a volatile day as foreign investors moved to buy German bonds and pushed futures prices up. The futures market saw prices rise from 81.92 at the opening to a level as high as 82.38, but then the contract drifted back to 81.94.

Investors in the German market are still concerned about an increase in bond issuance in the next few months with a new issue of unity fund bonds rumoured to be launched in the next few weeks. At the same time, they believe the D-Mark has peaked and will see some consolidation.

■ FRENCH government bonds continued a week-long trend of stronger prices and the spread between German and French bonds is getting narrower – close to 120 basis points.

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
UK GILTS		13.500	09/92	102-21	+06/32	11.89	11.82	12.52
		9.000	03/00	86-09	+19/32	11.42	11.46	11.73
		9.000	10/08	84-24	+25/32	10.95	11.01	11.11
US TREASURY *		8.750	08/00	100-27	-01/32	8.61	8.60	8.93
		8.750	08/20	99-31	+01/32	8.75	8.85	9.07
JAPAN	No 119	4.800	6/99	84.8829	+0.354	7.71	8.05	8.53
	No 129	6.400	03/00	94.2423	+0.365	7.44	7.72	8.14
GERMANY		8.500	08/00	97.0000	+0.040	8.96	9.08	9.02
FRANCE	BTAN	9.000	11/95	95.6839	+0.040	10.12	10.22	10.42
	OAT	8.500	03/00	89.5900	-0.060	10.23	10.38	10.57
CANADA *		10.500	07/00	95.7000	-0.350	11.23	11.30	11.12
NETHERLANDS		9.000	10/00	98.7600	-0.060	9.19	9.22	9.22
AUSTRALIA		13.000	07/00	97.7533	-0.052	13.41	13.37	13.57

London closing, *denotes New York closing
Yields: Local market standard Prices: US, UK in 32nds, others in decimal

Technical Data/ATLAS Price Sources

FT/AIBD INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Closing prices on October 22

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
ABBEY NATIONAL 8 7/8 93	150	99⅝	100⅛		9.01
ALBERTA PROVINCE 9 3/8 95	600	101	101¼		9.12
AUSTRIA 8 1/2 00	400	94	94⅜	+⅛	9.49
BANK OF TOKYO 8 3/8 96	100	95⅝	95⅞		9.48
BELGIUM 9 1/8 92	400	100⅞	101⅛		8.59
BFCE 7 3/4 97	150	93	93⅜		9.23
[illegible]					

OTHER STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
COUNCIL EUROPE 7 94 LFr	600	91½	92½		10.06
KREDIETCORP 7 93 LFr	1000	92½	93½	-¼	10.19
WORLD BANK 8 96 LFr	1000	92½	92¾		10.00
ALBERTA PROVINCE 10 92 C$	500	97	97¼	-⅛	11.95
BCE INC 9 5/8 93 C$	300	94¼	94¾		12.35
BELL CANADA 10 5/8 99 C$	150	91½	92¼	-⅛	12.19
[illegible]					

YEN STRAIGHTS	Issued	Bid	Offer	Chg. day	Yield
[illegible]					
MOUNT ISA FINANCE 5 3/4 94	[illegible]				
NEW ZEALAND 4 7/8 99	200	82	82		7.91
QUEBEC HYDRO 5 08	100	75½	75¾	+⅛	7.57
SKANDINAVISKA ENSK 6 1/2 95	100	98	98	+1	7.05
WORLD BANK 5 03	150	81½	81⅞	-⅛	7.27
WORLD BANK 7 1/4 92	100	100½	100⅞	-⅛	6.90
AUSTRIA 4 3/4 94	30000	91⅞	92⅛	+¼	7.67
CANADA 4 3/8 92	80000	95	95¼	+⅛	7.64
CREDIT FONCIER 5 1/4 94	20000	91⅛	91⅝	+¼	7.82
DENMARK 7 95	40000	97⅞	98⅛	+¼	7.59
EIB 4 5/8 94	40000	91	91¼	+¼	7.61
GENERAL ELECTRIC 5 3/4 93	35000	95¼	95⅜		7.94
INTER AMER DEV 7 1/4 00	30000	98¼	99	+⅛	7.43
ITALY 5 3/4 92	150000	97½	97⅞	+⅛	7.77
KANSAI ELEC PWR 4 5/8 94	60000	90⅞	91⅛	+¼	7.66
NIPPON TEL & TEL 5 7/8 96	50000	92	92¼	+¼	7.60
NORWAY 5 1/8 95	50000	90⅞	91⅛	+¼	7.61
SWEDEN 5 5/8 95	20000	91¼	92¼	+⅛	7.70
WORLD BANK 6 3/4 00	50000	95¼	96	+⅛	7.38

CONVERTIBLE BONDS	Issued	Cnv. price	Bid	Offer	Prem
[illegible]					
ARGYLL GROUP 4 1/2 02 £	60	2.95	102⅞	104	+28.59
ASDA-MFI 4 3/4 02 £	100	1.64	108⅝	109⅞	+38.10
BURTON GROUP 4 3/4 01 £	110	3.15	101¼	102⅜	
EASTMAN KODAK 6 3/8 01	300	50.67	91¼	92⅞	+18.07
GOLD KALGOORLIE 7 1/2 00	65	1.0554	69⅞	71	+25.94
GOODYEAR TIRE 6 7/8 03	150	80¼	55⅛	56⅛	
GRACE (WR) 6 1/4 02	150	42⅛	71	72⅛	+38.31
GRAND MET 6 1/4 02 £	100	6.58	90⅝	91⅝	+2.25
HAWLEY 6 02 PREF	400	1.91	96⅛	97⅝	+26.64
HILLSDOWN 4 1/2 02 £	150	4.16	101½	102½	+62.40
INTL PAPER 5 3/4 02	200	68½	81⅛	82⅜	+15.46
LAND SECS 6 3/4 02 £	84	6.72	83⅛	84½	+10.73
MITSUBISHI BK 1 3/4 02	300	2727.1	77¼	79½	-3.20
OGDEN 6 02	85	39.077	63	64¼	+45.89
PACIFIC DUNLOP 6 3/4 97	75	3.749	97⅛	98⅛	+3.68
TEXAS INSTRUMENTS 2 3/4 02	300	82⅞	77½	78⅜	
THORN EMI 5 3/4 04 £	103	7.45	101¼	102⅞	+22.07

Further sections (Deutsche Mark Straights, Swiss Franc Straights, Floating Rate Notes): [illegible]

* No information available - previous day's price
‡ Only one market maker supplied a price

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Monday October 22,1990. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	50.9238	33.5871	40.4276
Albania	(Lek)	10.0666	5.1644	3.4062	4.1000
Algeria	(Dinar)	18.5625	9.5241	6.2817	7.5610
[illegible]					
France	(Fr)	9.8900	5.0743	3.3468	4.0285
Fr. Cty/Africa	(CFA Fr)	494.50	253.7198	167.3434	201.4256
Fr. Guiana	(Local Fr)	9.8900	5.0743	3.3468	4.0285
Fr. Pacific Is	(CFP Fr)	175.00	89.7896	59.2216	71.2830
[illegible]					
Nauru Is	(Australian $)	2.5010	1.2832	0.8463	1.0187
Nepal	(Nepalese Rupee)	57.3401	29.4202	19.4044	23.3564
Netherlands	(Guilder)	3.3300	1.7085	1.1269	1.3564
N'nd Antilles	(A/Guilder)	3.5030	1.7973	1.1854	1.4268
New Zealand	(NZ $)	3.2180	1.6511	1.0890	1.3107
Nicaragua	(Cordoba)	2446250.0	1255130.836	827834.179	996435.845
Niger Rep	(CFA Fr)	494.50	253.7198	167.3434	201.4256
Nigeria	(Naira)	15.5385	7.9725	5.2583	6.3293
Norway	(Nor. Krone)	11.4800	5.8902	3.8849	4.6761
Oman	(Rial Omani)	0.7503	0.3849	0.2539	0.3056
[illegible]					
Vietnam	(Dong)	12133.40	6225.4484	4106.0575	4942.3217
Virgin Is-British	(US $)	1.9490	1	0.6595	0.7938
Virgin Is-US	(US $)	1.9490	1	0.6595	0.7938
Western Samoa	(Tala)	4.5447	2.3318	1.5379	1.8512
Yemen	(Rial)	23.4902	12.0524	7.9493	9.5683
Yemen PDR	(Dinar)	0.9032	0.4634	0.3056	0.3679
Yugoslavia	(Dinar)	20.5335	10.5354	6.9487	8.3639
Zaire Rep	(Zaire)	1445.00	741.4058	489.0016	588.5947
Zambia	(Kwacha)	77.90	39.9692	26.3620	31.7311
Zimbabwe	($)	4.9605	2.5451	1.6786	2.0205

Special Drawing Rights October 19,1990 United Kingdom £0.736777 United States $1.44202 Germany West D Mark 2.16995 Japan Yen179.243 European Currency Unit Rates October 22,1990 United Kingdom £0.698831 United States $1.36482 Germany West D Mark 2.05951 Japan Yen172.103

Abbreviations: (a) Free rate; (b) Banknote rate; (c) Commercial rate ; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (n) Public transaction rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate (u) Currencies fixed against the US Dollar; ‡ Kuwait Dinar Unavailable.© Peru Intl Unavailable
Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 071 634 4360/5.
Monday October 22,1990

INTERNATIONAL CAPITAL MARKETS

World Bank taps D-Mark sector with long-dated deal

By Simon London

IMPROVED sentiment during the last week in the German bond market, against the background of lower oil prices and a strong D-Mark, allowed the World Bank to make the first straight, long-dated D-Mark bond issue since July.

Over the past three months, borrowers including the European Investment Bank, Province of Saskatchewan and the Council of Europe have tapped the D-Mark sector with offers of longer-dated, floating-rate securities. But other issuers have chosen either to follow investors to the shorter end of the yield curve or stay out of the sector altogether. In addition to the paucity of swap opportunities, the German government is drawing funds away from the international market with its own heavy borrowing programme to finance reunification.

Yesterday's DM750m issue of 10-year bonds via Deutsche Bank offers a 9 per cent coupon. The other international D-Mark bond issues with a 9 per cent coupon are July's offering from Eurofima, and June's from the World Bank itself – but both include a call option.

Launched at a price of 101½, the bonds traded late in the day at 99.90 bid, well inside full fees of 1¾ per cent. At this level the issue offers a yield of 9.01 per cent, just five basis points above yesterday's yield on 10-year German government paper.

Elsewhere in the market, the European Coal and Steel Community launched a L225bn 5-year issue via Cariplo. The majority of the paper was taken up by Italian investors, who benefit from tax incentives when buying the paper of certain supranational borrowers.

Primary market rumours continue to centre on possible issues from Ontario Hydro. The borrower is taking the unusual step of vetting possible syndicate members for trading links with South Africa, which it views as undesirable. A dollar and an Ecu deal are possible in the near future, but syndicate managers suggest that the details have yet to be fixed.

In the secondary market, the yield differential of international dollar bonds over US Treasury paper is continuing to widen. For example, last week's $190m 10-year issue by Japan Highway was yesterday quoted at 60 basis points over the curve, compared with 55 basis points on launch day. Similarly, the $300m seven year deal for the European Investment Bank is trading 2 basis points wider at 54 basis points over the curve.

Bonds issued by the Republic of Finland guaranteed agency Finnish Export Credit and state bank Postipankki held steady on news that Moody's Investors Service had downgraded debt issued by them to AA-1, from Triple-A. The downgrading, which had been expected in the market, affects $6.8bn of outstanding debt.

INTERNATIONAL BONDS

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees	Book runner
D-MARKS						
World Bank(a)♦	750	9	101½	2000	1¾/1⅛	Deutsche Bk
LIRE						
Euro.Coal & Steel Comm.(a)♦	225bn	12	101.70	1995	1⅞/1⅛	Cariplo
YEN						
Mitsui Real Estate(a)♦	7bn	8⅛	101½	1995	1⅝/1⅛	Nomura Int.
Mitsui Real Estate(b)♦	5bn	8	101½	1995	1⅝/1⅛	Nomura Int.

★★Private placement. §Convertible. ‡With equity warrants. †Floating rate note. ♦Final terms. a) Non-callable. b) Coupon payable semi-annually. Non-callable.

Dresdner Bank issues PCs for first time

By Katharine Campbell in Frankfurt

DRESDNER Bank, the second largest German bank, is for the first time issuing a class of supplementary capital – Genussscheine or profit participating shares (PCs) – as a means of expanding its capital base.

While Dresdner says it meets the Basle capital adequacy test comfortably – with around 5 per cent each of tier I core capital and tier II supplementary funds currently – all German banks are likely to be faced with the need to raise extra tier II funds to meet EC capital guidelines when they are written into national law.

This is because the German authorities are taking a stricter view as to what they will permit as equity capital; revaluation reserves, notably, are not deemed to pass the test, in contrast to the position in most other countries.

The bank is aiming to raise a total of DM500m in 14-year paper that offers an effective fixed yield of 9.4 per cent. One PC is being offered per 72 ordinary shares held. There is an issuer call and investor put right from the end of June 1999.

In a generally weaker market yesterday, Dresdner shares shed DM4 to close at DM381. Dresdner's PCs differ from most such instruments in that they are neither tied to the yearly dividend payout nor carry an attached warrant or option on Dresdner stock. One reason for the latter is that Dresdner is not prepared to create warrants based on the current stock price, which it regards as too low.

Instead, it is offering PCs with a coupon of 9.5 per cent, at an issue price of 98.25. The lower 9.4 per cent effective yield arises because the interest payment can only be made, after the annual meeting, on June 30 of each year.

The PCs carry no voting shares, and are offsettable against tax for the issuer. They count as risk capital because holders participate in balance sheet losses, and rank for payment behind all other bank creditors, though before ordinary shareholders.

Canadian banks seek clearance

By Robert Gibbens in Montreal

THE three biggest Canadian chartered banks are to seek US regulatory clearance to allow their brokerage subsidiaries to trade stocks and bonds of Canadian companies freely in the US.

They are Royal Bank of Canada, Canadian Imperial Bank of Commerce and Bank of Nova Scotia. They have filed on behalf of their broker subsidiaries RBC Dominion Securities, Wood Gundy and Scotia McLeod.

Auction postponed in US

By Deborah Hargreaves

THE US Treasury was yesterday forced to postpone another auction of $19.2bn of three-month and six-month Treasury bills because of Congress's failure to pass legislation raising the US debt ceiling.

The Treasury cannot issue government paper exceeding a temporary debt ceiling of $3,195bn which is not being increased because of the prolonged wrangling over the budget.

The Treasury put off an auction on Thursday of 52-week bills and is expected to postpone today's planned sale of $12bn of two-year Treasury notes.

While it is not unusual for the Treasury to postpone its regular auctions of government debt, the timing could make it difficult for the market to swallow when they are rescheduled at a later date.

The government is due to announce plans for a major quarterly refunding next Wednesday in a sale that is expected to total $30bn.

Tailored securities cutting a dash

Simon London examines the appeal of structured private placements

Against a background of depressed public bond markets, complex "structured" private placements are providing a welcome stream of income to otherwise hard-pressed financial institutions.

The term "structured placements" covers a broad range of securities. At one end of the spectrum it includes straight debt securities of the type placed by UK corporations in the US, which are structured only in the sense that the underlying covenants are tailored for the investor.

At the other extreme, it covers securities which can incorporate a whole armoury of interlocking arbitrage features – applying liability risk management tools to the other side of the balance sheet. In these austere times financial engineering is not dead, it has just moved out of the public eye.

A stream of UK companies has tapped the US private placement market over the last 18 months with tailored securities. This month Clyde Petroleum and Pilkington have become the latest companies to raise funds from US institutional investors by placing securities with tailored covenants.

In the main, these transactions are completed outside the SEC rule 144a which was designed to open up the US private placement market to overseas borrowers. Placements under rule 144a have to be tradeable, so covenants tend to be simple – "cookie cutter" covenants, in market parlance. Yet the main attraction of private placements for institutional investors is that covenants can be tailored to yield specific credit risk or tax advantages.

However, UK companies have so far been loth to issue more sophisticated forms of structured instruments embraced by US corporations. These more complex structured placements are often a hybrid between traditional debt securities and derivative financial products. The business is investor-driven, with deals structured to offer the investor a specific package of currency, interest rate, equity and even commodity risk exposure – but embedded in a tailored security.

Only when the structure has been worked out are potential issuers approached, usually with the welcome offer of a one-off tranche of sub-Libor funding. A risk management package for the issuer is generally offered as part of the deal. Alternatively, the arranging bank itself will act as the issuer, provided the funding falls within internal borrowing targets.

Securities which incorporate both coupon income and currency or interest rate exposure are not uncommon in the public bond markets. For example, a number of publicly traded Eurobonds now feature a fixed coupon linked to a formula based on the yen/Australian dollar exchange rate. But these "public" offerings are only the conspicuous tip of a much larger structured securities market and are often listed only because the investor is limited to buying listed securities.

In these austere times financial engineering is not dead – it has just moved out of the public eye

For the arranging banks, structured private placements are profitable and low-risk, incorporating none of the underwriting risk associated with finely-priced public offerings. If a deal fails to take-off, if for example no issuers are prepared to back the deal, the bank has lost nothing but back office costs and a little goodwill. Because the risk is small, deals can be just £5m or less, although bigger structured placements reach £100m or more. Some deals offer a short-term embedded hedge of just one month, other structured securities run for more than 10 years.

Few market participants will guess at the size of the structured placement business. The existence and structure of many deals remains a closely guarded secret. None of the leading UK houses active in the market, including Schroders, Warburgs, Barings and Kleinwort Benson, will publicise their highly structured deals.

Others active in the area, such as Nippon Credit International and Westpac, are equally coy. As a rule, only the more straight-forward placement business is disclosed. Kleinwort Benson alone estimates that it will place around $1bn with US institutions for UK corporations this year.

Leading US banks active in the area, such as J.P. Morgan, Salomon Brothers and Bankers Trust, publicise a few bigger deals. For example, last week Manufacturers Hanover announced details of a Y2bn five-year placement for Crédit Mutuel, the French institution, targeted at a Japanese investor.

The placement, documented as a loan rather than a bond, carries a straight coupon for 2¼ years before switching to a reverse floating-rate note.

This structure offers an exposure to interest rates in the early 1990s, which in this case the investor obviously expects to fall.

The main demand for structured placements comes from Japanese, US and European institutional investors hungry for derivative instruments, but denied access to swaps and options by either their own internal guidelines or the rules imposed by regulatory authorities. There is a booming business in "packaging" the features of swaps and options to make them acceptable to market regulators.

There is particular demand from portfolio managers who face multi-currency exposure but are denied access to "naked options" – where the option is held without an underlying holding of stock. Deals are structured without the language of options but with repayment linked to a formula incorporating option-style risk.

Other structures are driven by tax or accounting considerations. The vagaries of Japanese accounting are a gold mine for structured placement engineers. Japanese investors are also prepared to take long-term portfolio decisions and will therefore accept illiquid instruments designed to be held until maturity. In contrast, UK fund managers are notoriously equity-led with short-term investment horizons, and the structured placement market in the UK remains strictly limited.

Securities incorporating stock index option features have been an area of particular growth over the past two years. For example, US insurance companies have been denied access to overseas equity markets beyond thresholds prescribed by the Securities and Exchange Commission. Yet a structured placement ostensibly issued by a US corporation but incorporating an option on an overseas stock-market index is deemed to be a domestic security for regulatory purposes.

Commodity risk exposure to oil, gold and other metals has also been used as a basis for placements. For example, an investor with a large gold portfolio holding may want to buy a security linked to the commodity price although access to the commodity futures market is denied by articles of association.

Moreover, as the primary structured placement market has developed, so a form of secondary market has evolved in parallel. Arranging banks are increasingly willing to act as brokers, finding buyers for placements that were written some years ago but have outlived their usefulness for an investor.

Banks are also willing to dismantle structured placements and take on the embedded risks themselves. The institutions which have invested time and expertise in structured products could soon be reaping a reward in terms of secondary business.

Although no current market figures are available, the business appears to be healthy. The Gulf crisis has introduced elements of uncertainty that are impossible to hedge, driving investors into short-term instruments or cash. Although even here the flexibility of structured placements has won new adherents.

Banks are simply designing one-month placements that can be rolled over for up to five years at the option of the holder. While the appetite of Tokyo fund managers has lessened this year, European and US institutions are beginning to understand and accept structured securities.

LONDON MARKET STATISTICS

FT-ACTUARIES SHARE INDICES

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EQUITY GROUPS & SUB-SECTIONS (Figures in parentheses show number of stocks per section)	Mon Oct 22 1990 Index No.	Day's Change %	Est. Earnings Yield% (Max.)	Gross Div. Yield% (Act at 25%)	Est. P/E Ratio (Net)	xd adj. 1990 to date	Fri Oct 19 Index No.	Thu Oct 18 Index No.	Wed Oct 17 Index No.	Year ago (approx) Index No.
1 CAPITAL GOODS (194)	711.41	+0.3	15.58	6.68	7.84	31.87	709.01	709.43	703.02	881.87
2 Building Materials (26)	963.51	-0.3	15.22	6.32	8.09	40.76	963.31	967.86	959.65	1038.56
3 Contracting, Construction (35)	1159.03	+0.2	17.31	6.89	7.49	58.05	1157.23	1155.77	1145.02	1402.69
4 Electricals (10)	1866.63	+0.2	15.07	7.21	8.12	84.91	1862.59	1867.23	1863.41	2539.91
5 Electronics (26)	1581.52	+1.0	10.63	5.42	12.86	58.17	1566.20	1564.32	1557.66	1951.62
6 Engineering-Aerospace (8)	415.12	-0.4	16.24	5.81	7.41	15.45	416.82	411.01	407.75	0.00
7 Engineering-General (47)	357.02	-1.2	16.78	7.27	7.17	17.38	361.20	364.57	363.95	0.00
8 Metals and Metal Forming (8)	398.72	-0.8	28.58	8.38	4.26	17.02	401.77	401.57	398.55	452.81
9 Motors (13)	264.47	+0.1	18.82	6.82	6.19	14.53	268.83	271.59	268.41	355.35
10 Other Industrial Materials (23)	1197.84	+2.5	14.06	6.81	8.22	60.27	1180.20	1176.42	1156.96	1643.04
21 CONSUMER GROUP (176)	1207.38	+0.5	10.24	4.28	12.06	31.53	1201.03	1198.42	1185.63	1240.02
22 Brewers and Distillers (22)	1506.61	+0.1	10.38	3.92	11.67	33.61	1504.48	1506.30	1480.70	1415.59
25 Food Manufacturing (18)	1012.75	+0.5	11.46	4.82	10.75	28.13	1007.53	1005.42	1002.54	1096.07
26 Food Retailing (17)	2362.09	+0.2	10.10	3.54	12.61	52.68	2358.53	2345.28	2338.06	2340.87
27 Health and Household (16)	2457.44	+1.1	7.19	3.03	16.43	50.32	2431.66	2426.82	2366.27	2383.41
29 Leisure (32)	1203.50	+0.7	12.44	5.39	9.73	44.58	1194.60	1201.56	1188.00	1568.74
31 Packaging & Paper (12)	483.88	+0.3	13.30	7.19	9.23	22.95	482.49	485.57	485.71	535.55
32 Publishing & Printing (14)	2888.75	+0.2	12.42	6.49	10.08	126.11	2884.59	2837.04	2821.20	3483.54
34 Stores (33)	812.12	-0.3	10.86	4.54	11.98	19.51	810.13	807.34	806.67	775.61
35 Textiles (12)	420.65	+0.6	14.19	8.44	8.90	20.45	418.28	412.97	407.51	514.34
40 OTHER GROUPS (107)	978.01	+1.1	12.64	6.00	9.62	32.16	967.84	963.07	954.41	1120.98
41 Agencies (16)	1025.36	-0.4	10.35	3.24	11.70	22.25	1028.98	1018.13	1010.83	1495.39
42 Chemicals (24)	1016.05	+1.4	13.03	6.56	9.07	46.81	1001.93	993.73	988.20	1209.31
43 Conglomerates (15)	1337.20	+1.1	12.70	7.49	9.49	38.53	1322.39	1324.12	1290.15	1608.75
44 Transport (14)	1885.97	+0.6	12.88	5.54	9.84	67.29	1874.75	1859.43	1830.93	2147.12
46 Telephone Networks (3)	1066.94	+1.0	12.27	5.13	10.61	26.09	1055.61	1051.90	1054.88	1098.18
47 Water (10)	1947.60	+1.5	15.08	6.95	7.50	68.12	1919.24	1937.63	1935.95	0.00
48 Miscellaneous (25)	1515.31	+1.3	12.36	5.95	9.40	61.84	1496.87	1475.10	1457.73	1837.75
49 INDUSTRIAL GROUP (479)	1015.99	+0.6	12.14	5.33	10.09	32.81	1009.46	1007.03	997.16	1128.39
51 Oil & Gas (21)	2298.56	+0.2	9.74	5.43	13.41	85.44	2293.77	2290.67	2296.64	2166.72
59 500 SHARE INDEX (500)	1121.22	+0.6	11.77	5.35	10.49	37.07	1114.77	1112.27	1103.51	1215.62
61 FINANCIAL GROUP (103)	687.66	—	—	6.91	—	32.89	687.80	686.50	683.08	748.93
62 Banks (9)	735.79	+0.3	22.24	7.83	5.89	42.00	733.50	736.43	733.85	744.46
65 Insurance (Life) (7)	1290.22	-0.3	—	5.95	—	55.82	1294.40	1279.68	1301.96	1232.85
66 Insurance (Composite) (6)	583.40	-1.0	—	7.28	—	32.08	589.25	582.96	596.90	644.28
67 Insurance (Brokers) (8)	846.79	+0.3	8.92	7.59	14.65	41.94	844.03	830.29	809.70	1029.51
68 Merchant Banks (7)	346.46	-0.9	—	6.36	—	12.73	345.41	344.50	344.08	389.79
69 Property (45)	930.91	+0.5	7.94	5.23	16.66	25.45	926.26	930.32	921.54	1165.40
70 Other Financial (21)	244.90	-0.6	11.61	7.13	11.07	11.83	246.27	245.87	245.20	326.08
71 Investment Trusts (66)	1006.85	+0.6	—	3.93	—	25.91	1001.10	998.61	991.08	1179.61
81 Overseas Traders (5)	1153.34	+1.0	12.40	8.01	9.60	69.98	1142.21	1125.47	1129.44	1303.11
99 ALL-SHARE INDEX (674)	1015.13	+0.5	—	5.54	—	35.66	1010.12	1007.82	1001.31	1102.34

	Index No.	Day's Change	Day's High (a)	Day's Low (b)	Oct 19	Oct 18	Oct 17	Oct 16	Oct 15	Year ago
FT-SE 100 SHARE INDEX†	2102.0	+13.0	2103.4	2083.9	2089.0	2082.6	2068.0	2083.6	2101.9	2189.7

FIXED INTEREST

PRICE INDICES	Mon Oct 22	Day's change %	Fri Oct 19	xd adj. today	xd adj. 1990 to date
British Government					
1 Up to 5 years	117.68	+0.12	117.54	—	10.24
2 5-15 years	121.98	+0.51	121.36	—	11.95
3 Over 15 years	123.67	+0.68	122.83	—	9.84
4 Irredeemables	141.78	+0.01	141.77	—	8.85
5 All stocks	122.55	+0.38	122.09	—	11.27
Index-Linked					
6 Up to 5 years	154.22	+0.14	154.00	—	3.04
7 Over 5 years	138.19	+0.22	137.89	—	3.45
8 All stocks	139.29	+0.21	138.99	—	3.42
9 Debentures & Loans	101.96	+0.15	101.90	0.09	9.29
10 Preference	72.97	-0.12	73.13	0.08	5.40

AVERAGE GROSS REDEMPTION YIELDS		Mon Oct 22	Fri Oct 19	Year ago (approx.)
British Government				
1 Low Coupons	5 years	10.62	10.69	10.02
2	15 years	10.83	10.97	9.59
3	25 years	10.84	10.97	9.48
4 Medium Coupons	5 years	11.61	11.68	11.00
5	15 years	11.31	11.38	9.98
6	25 years	11.14	11.21	9.60
7 High Coupons	5 years	11.70	11.78	11.11
8	15 years	11.53	11.62	10.20
9	25 years	11.41	11.49	9.77
10 Irredeemables		11.05	11.05	9.55
Index-Linked				
11 Inflation rate 5%	Up to 5 yrs	4.28	4.34	3.99
12 Inflation rate 5%	Over 5 yrs	4.39	4.41	3.72
13 Inflation rate 10%	Up to 5 yrs	3.01	3.06	3.12
14 Inflation rate 10%	Over 5 yrs	4.20	4.21	3.54
15 Debs & Loans	5 years	13.27	13.90	13.58
16	15 years	12.77	12.84	12.20
17	25 years	12.44	12.41	11.68
18 Preference		13.00	12.97	10.57

†Opening index 2093.1; 9 am 2085.2; 10 am 2086.2; 11 am 2085.3; Noon 2093.6; 1 pm 2093.3; 2 pm 2095.5; 2.30 pm 2097.7; 3 pm 2098.8; 4.10 pm 2101.5; (a) 3.14pm (b) 10.26am † Flat yield. Highs and lows record, base dates, values and constituent changes are published in Saturday issues. A list of constituents is available from the Publishers, The Financial Times, Number One, Southwark Bridge, London SE1 9HL, price 15p, by post 35p. CONSTITUENT CHANGE: Name Change: TR Trustees Corporation (71) is now TR Smaller Companies Investment Trust.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	74	2	14
Corporations, Dominion and Foreign Bonds	6	4	11
Industrials	368	284	905
Financial and Properties	204	95	443
Oils	26	22	41
Plantations	3	2	5
Mines	46	35	74
Others	106	27	81
Totals	830	471	1,574

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

TRADITIONAL OPTIONS

- First Dealings Oct. 15
- Last Dealings Oct. 26
- Last Declarations Jan. 24
- For settlement Feb. 4

For rate indications see end of London Share Service

Calls in Brent Walker, Burton, Conroy Pet. & Natural Res., Countryside Props., Eurotunnel warrants, Hughes Food, Maxwell Comms., Next and Tusker Res. Put in Maxwell Comms. Put and call in Tusker Res.

LONDON TRADED OPTIONS

THE LONDON derivative markets remained suspicious of any recovery in equity prices, fearing that the decline in oil prices was technical and could easily be reversed.

For the first half of the day, the December FT-SE 100 contract showed only small gains, despite the strong advance during the previous session on Wall Street.

The release of the latest UK trade figures, which were better than expected, prompted a small rally in futures. Further advances took place before Wall Street opened on hopes that US equities would continue their rally.

Those expectations were fulfilled and London moved cautiously higher during the afternoon. However, there remained a worry that the factors behind the US rise – lower oil prices and hopes for a resolution of the budget crisis – could prove only temporary.

December closed 26 higher at 2,162, while its premium over the cash index ended at 50 points. According to brokers' calculations of the cost of finance and future dividend payments, December should stand only 35 points above the cash index.

The options market also reflected some investors' more cautious stance. Kleinwort Benson was said to have been a seller of 2,500 December 2,400 calls and was believed to have hedged in the futures market.

Overall turnover levels were little changed. A total of 30,007 contracts changed hands and was weighted towards puts. However, in the FT-SE options dealing was busier, with 10,027 lots traded, up from 6,158.

Among the stock options, British Steel was the busiest after James Capel marketmakers bought 3,500 January 140 calls at 13½p in a bullish trade.

Dealing in Polly Peck options was resumed for the purposes of clearing outstanding positions. Activity was concentrated in puts and the trading implied a share price of 12p to 15p.

[illegible]

UK COMPANY NEWS

Only 3.6% take up £37m rights issue from Wace

By Andrew Hill

WACE GROUP, the pre-press services group which launched a £37m convertible share issue on the eve of the Iraqi invasion of Kuwait, revealed yesterday that only 3.6 per cent of the rights had been taken up by existing shareholders.

The rest of the issue was left with the underwriter, Barclays de Zoete Wedd, and more than 50 sub-underwriters.

De Zoete & Bevan, broker to the issue, said yesterday: "It wasn't surprising given the way the ordinary share price moved."

The rights issue coincided with the company's £12m agreed bid for its rival Parkway Group and the proceeds will be used to offset Parkway's debts.

The terms attached to the 8 per cent convertible preference shares suggested an effective conversion price of 350p per ordinary share. But since the rights issue and acquisition were announced on August 1, Wace shares have fallen from 326p to yesterday's closing of 186p, down 6p on the day.

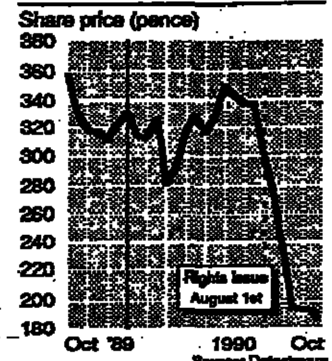
They now stand at their lowest point since early 1988, in spite of the August announcement of interim pre-tax profits at the top end of City expectations.

Wace is regarded as one of the strongest companies in the depressed market for pre-press services – preparing photographs for magazine or poster publication – but observers suggested yesterday that shareholders had spurned the issue partly because they were worried about Wace's ability to revive Parkway. Only 1.34m of the 37.5m convertible shares provisionally allotted were taken up. They now trade at 73p compared with the rights price of 100p.

This is the third Wace cash call to have fallen foul of a weakening stock market. The first was announced at the end of September 1987 and 38.9 per cent of the rights were eventually taken up. About 80 per cent of a second issue, launched just before last October's mini-crash, was left with the underwriters.

Wace Group

Share price (pence)



Source: Datastream

Mixed new business for London and Manchester

LONDON AND Manchester Group, the Exeter-based life insurer, reported a mixed set of new business results, with an increase in annual premium business offsetting a fall-off in revenues from new single premiums, writes Richard Lapper.

Total new annual premiums rose nearly 12 per cent, from £31.9m to £35.7m, in the first nine months of 1990. New annual premiums at the life broker division expanded by 25 per cent to £18.1m, reflecting the continuing expansion in tied agency network. A further 14 agents have been added since June 30, bringing the total to 552, compared with 572 at the end of last year.

Total single premiums were down by 19 per cent to £47.9m. New single premium pensions business was worst hit, falling 25 per cent to £16.2m.

Mr John Thomson, chairman, blamed the depressed economic climate and uncertainties in the corporate pensions sector as a result of recent legal judgments.

Pigment bargain could be a pig in a poke

THE PRECIPITATE fall from grace of the Cookson Group over the past year, and particularly the rumour-driven collapse in its share price last month, caused concern not only in the City but also up the Thames at the Millbank headquarters of the giant chemical group ICI.

By the beginning of September ICI executives were beginning to worry that Cookson's debt problems might affect the stability of Tioxide, the world's second largest paint pigment maker, which is owned jointly by ICI and Cookson. At the same time ICI scented an opportunity to take sole control of Tioxide at a bargain price.

Meanwhile the directors of Cookson, one of the UK's largest industrial materials groups, faced irresistible pressure from financial institutions to reduce the company's debt load, as its trading position deteriorated and interest payments moved close to the dangerous point where they would be less than two times covered by earnings.

That was the starting point for the negotiations which ended late on Sunday evening, with Cookson agreeing to sell its 50 per cent share in Tioxide to ICI for £160m. Cookson will also receive an interim dividend of £11m from Tioxide for the current financial year.

In terms of historic earnings, ICI certainly seems to have squeezed extremely advantageous terms out of Cookson's financial distress. The deal values Tioxide at little more than twice its 1989 pre-tax profits of £200m on titanium dioxide sales of £700m.

But Mr Michael Henderson, Cookson chairman and chief executive, says the historic figures give a very misleading impression of Tioxide's prospect for the 1990s.

During the second half of the 1980s Tioxide was a very lucrative source of cash for its two shareholders; demand for titanium dioxide, a brilliant white pigment for paints, plastics and other materials, increased steadily and production capacity remained limited. Cookson received £200m in Tioxide dividends between 1985 and 1989.

But in 1990 industrial demand for the pigment has fallen sharply and so has its price.

"Only today Du Pont [the largest titanium dioxide maker] announced another reduction in the dollar price," Mr Henderson said last night.

As more production capacity comes on stream during the early 1990s, including a new Tioxide plant in Malaysia, the pigment is likely to stay oversupplied, Cookson believes.

And Tioxide faces capital expenditure running into hundreds of millions of pounds to clean up its plants, which discharge large quantities of acid, and to introduce new technology. Tioxide is operating at a competitive disadvantage to Du Pont and some other important competitors, which use an environmentally more acceptable process.

Mr Henderson said Tioxide's capital expenditure requirements could be as much as £700m over the next five years. ICI put the figure much lower – in the region of £200m. Analysts say that both sides may be exaggerating to make their point, and the true investment requirement is likely to be between £330m and £400m.

Clive Cookson details the sale of Cookson's 50% stake in Tioxide to its partner ICI

The Tioxide sale will reduce Cookson's net debt to a level well below £400m, said Mr Fergus Munro, finance director. "It will take the interest cover to between three and four times."

"Following the disposal," said Mr Henderson, "Cookson will focus its management and financial resources on its core activities in ceramics, plastics and metals."

Cookson will still be looking for further disposals of businesses that do not fit in with its long-term strategy. "But the Tioxide deal takes the pressure off," Mr Henderson commented. The company's negotiating position will be much stronger and it will not have to deal with would-be purchasers from a position of financial distress, he added.

Both Cookson and ICI yesterday expressed confidence that the Tioxide deal would survive scrutiny from the European Community's merger control authorities. But some analysts said that it could run into trouble, as ICI would become the owner both of the world's largest paints business and of the second largest pigments supplier.

Mr Henderson said it was possible, now that the deal was public knowledge, that another company would come in with a bid either for the whole Tioxide business or for Cookson's half-share.

Under the agreement, if ICI sells more than 50 per cent of Tioxide before the end of February 1991, Cookson will be entitled to a pre-specified share of profits from such a sale. ICI says it "has no present intention to make any such sale".

According to Mr Henderson, the Tioxide sale secures the future of Cookson as a leading industrial materials manufacturer. On a personal level, he says: "The most difficult thing over the last few weeks has been not being free to explain what we're doing. I feel extremely relieved that we can now start to tell the real story."

See Lex

Beazer loan broke 1985 Companies Act

By Maggie Urry

BEAZER, the heavily-indebted housebuilding, contracting and building materials group, broke the Companies Act 1985 by lending £350,000 to Mr Alan Chapple, the group's finance director, so that he could buy a house.

The group admitted the breach of Section 330, which forbids companies making loans to directors, in its latest accounts, for the year to June 30. They also show that the group's high level of debt was reduced by £253.8m and that profits were boosted by a pension fund credit.

Beazer's shares were unchanged yesterday at 90p.

Mr John Miners, director of accounting, said that the group had told the Department of Trade and Industry and the Stock Exchange about the "technical breach" of the Companies Act. He said a "slap on the wrist" had been administered but Beazer had been told it would not be prosecuted.

The loan was made to Mr Chapple in July 1989 as a temporary bridging facility and was only spotted by the group's joint auditors in September this year when they saw the accounts. Mr Chapple then repaid the amount outstanding.

The accounts also show that group profits before tax and exceptional items of £95.5m (£131.1m) included a credit of £11.6m (nil) because of a surplus in the US pension scheme. Mr Miners said credits in future years would depend on what assumptions were made.

Beazer had net debt at the year end of £880.5m (£1.13bn), representing 83.7 per cent (99 per cent) of shareholders' funds. Of the reduction in debt, Mr Miners said £122m came from exchange rate moves, particularly on the dollar borrowings, which form 96 per cent of the total. Sterling rose from $1.55 to $1.74 during the year.

Beazer also sold trade debtors to repay debt. At the year end trade debtors with a face value of £118.7m had been sold, and the discount and fees related to this programme totalled £10.9m, shown under "other expenses".

Mr Miners said this represented a lower cost than the 10.1 per cent average rate of interest the group was paying on its debt during the 1989-90 year.

The accounts also show that under US accounting principles, Beazer's fully diluted earnings per share would have been 7.82p (26.1p) rather than the reported 21.51p (29.9p). The difference is largely explained by a £29m extraordinary debit relating to the write-off of Beazer's investment in Girvan Corporation, an Australian group which went into receivership. Under US accounting principles this debit would be included in net income.

ARAB INTERNATIONAL BANK
BALANCE SHEET

المصرف العربي الدولي

June 30, 1990 and 1989
(Expressed in thousands of US dollars)

ASSETS	1990	1989
Cash and due from banks	39,024	24,125
Time deposits	1,131,721	1,004,566
Negotiable certificates of deposit	280,000	250,000
Investments :		
Marketable notes and bonds	46,192	41,699
Equity participations	101,994	104,627
Loans and advances, less provision	553,924	558,193
Accounts receivable and accrued interest	36,208	34,894
Property and equipment	58,073	57,527
	2,247,136	2,075,631

LIABILITIES AND SHAREHOLDERS ' EQUITY	1990	1989
Demand deposits	211,689	177,180
Time deposits	1,701,266	1,577,430
Accounts payable and accrued interest	76,779	64,958
Proposed dividends	6,600	6,600
Total liabilities	1,996,334	1,826,168
Shareholders' equity :		
Share capital	165,000	165,000
Statutory reserve	37,020	35,737
General reserve	47,480	47,263
Retained earnings	1,302	1,463
Total shareholders' equity	250,802	249,463
	2,247,136	2,075,631
Liabilities under credits, guarantees and acceptances	353,455	379,921

Mr. ABDULLATIF A. EL KIB
Managing Director

Dr. MOSTAFA KHALIL
Chairman

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Mixed fortunes as Hammerson dips to £33.6m

By Vanessa Houlder, Property Correspondent

THE HAMMERSON Property Investment and Development Corporation, the UK's third largest property company, yesterday revealed a fall from £38.2m to £33.6m in pre-tax profits for the six months to June 30.

An increase in rental income was offset by a reduction in profits from disposals and a rise in financing costs.

Mr John Parry, managing director, said that net rental income, which rose by £4.7m to £56.11m, was increasing in line with the forecast made in the 1988 defence against the bid by Rodamco, the Dutch investment group. This predicted that UK income would increase by 100 per cent and world-wide income by 70 per cent by December 1993.

Hammerson, which has the most international spread of business of the UK property companies, experienced mixed fortunes in all its markets, with the exception of continental Europe where rental growth was strong.

In the UK, which accounts for 38 per cent of the portfolio, City office rentals were under strain while most shopping centres were holding up well, he said.

The profit of £5.41m (£9.75m) from disposals was the third tranche of the proceeds from the sale of River Plate House in London. Mr Parry said he expected profits from disposals for the year would match last year's £14m total, through sales of German property.

Mr Parry said that Hammerson was looking for acquisitions that would bring its UK weighting close to 50 per cent. In the past six weeks, he had begun to see some prime city offices and retail properties appear on the market at acceptable yields.

Hammerson, which has gearing of 44 per cent, has £250m of undrawn committed facilities available for acquisitions, although it is adamant that interest charges should not exceed rental income.

The company is also planning to expand in France, Germany and Spain. It said it had been looking at possibilities in parts of eastern Germany, notably Dresden and Leipzig, but had been deterred by the lack of infrastructure.

Terms have been agreed with National Power for the leasing of two thirds of Dominant House, Hammerson's 155,000 sq ft office development in the City of London.

Financing costs increased from £20.26m to £24m, resulting mainly from the refinancing of the C$80m A preference shares.

Earnings per share decreased from 15.27p to 12.7p. An unchanged dividend of 3.5p is declared.

Sydney Mason: Hammerson chairman

See Lex

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Allied Ldn Props ......fin	2.455	Jan 3	2.225	3.53†	3.3
Clydesdale Inv ......fin	2.45	Jan 7	2.6	3.45	3.1
Darby § ......int	1.2	Jan 28	1.2	-	3.3
Hammerson Prop ......int	3.5	Dec 10	3.5	-	19.5
Lucas Inds ......fin	4.9☆	Jan 18	4.5	7	6.25
Mowat § ......fin	nil	-	1	0.5	1.5
Scot Met Prop ......fin	4.22	Jan 7	3.75	6.75	6

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. §USM stock. ☆Carries scrip option.

Severn Trent seeks to lapse Caird offer

By Andrew Bolger

SEVERN TRENT, the recently-privatised water company, wants to lapse its 100p per share offer for Caird Group – in spite of yesterday announcing that it had received acceptances from owners of 56.2 per cent of the waste management group's ordinary shares.

Severn Trent has asked the Takeover Panel for permission to withdraw its hostile £78m cash bid and also to be given the option of submitting a lower offer. It is hoped the Panel will rule – at least on the first question – today.

Caird shares yesterday closed 5p lower at 52p, while Severn Trent shares rose 6p to 202p.

Caird last week recommended that its ordinary shareholders should accept the offer. Severn Trent yesterday extended its offer until next Tuesday, pending the Panel's ruling.

The water company made its offer conditional on Caird repeating a forecast, given on September 4, that it would make pre-tax profits of £8.5m in the 18 months to December 31. In fact, Caird said last week it would make only £7.15m, and made extraordinary provisions of £4.89m to cover anticipated losses and closure costs.

Severn Trent is also considering suing Caird over losses which the water company has incurred in building a 29.98 per cent stake in the waste group, on the basis of Caird's results and profits forecast.

Caird contends the profits forecast was not audited and that Severn Trent was warned before the bid was launched not to place too much reliance on the £8.5m figure.

Severn Trent said it had received acceptances from owners of 16.7 per cent of Caird's preference shares, for which it offered 60.3p per share. Caird has advised its preference shareholders to hold out for more. Yesterday the prefence shares closed 2p lower at 43p.

The water company was also concerned by Caird's defence document, which referred to 17.6m cu m of existing and void space with planning permission for landfill at 24 of the group's 28 landfill and mineral sites.

Analysts said they had earlier understood from Caird it had 30m cu m with licences for waste disposal, and not just the planning permission referred to by Caird's valuers.

Creditor hawks forgather for the Polly kill

The banks are impatient. The 12th hour for Nadir's group nears. **Richard Waters reports**

POLLY PECK International has been walking a tightrope ever since defaulting on payments to its creditors last month.

A strong prod from any direction could upset its delicate balance. Administration, if it comes, could strike the group from a number of angles.

The banks remain the most likely prodders. They were owed all but £400m of Polly Peck's £1.3bn of outstanding debts at September 30. The initial hawkishness of some banks was tempered by a more conciliatory attitude from others. Now, however, the doves' patience appears to have been exhausted.

Mr Asil Nadir has so far managed to remit only $10m (£5.1m) from northern Cyprus, despite promising the money as long ago as October 7. He had been making the same promises to his own directors for at least two weeks before this.

As time has gone on, patience has dwindled.

One steering committee bank, which as recently as last week was sounding optimistic about Polly Peck's future, yesterday offered little hope for its survival beyond tomorrow, if Mr Nadir cannot raise more cash from Turkey and northern Cyprus.

The 10-strong steering committee of leading creditors would not need to call a full meeting of the bank creditors – similar to the two held earlier this month – to bring about the appointment of administrators.

In theory, any creditor can individually petition the court for an administration order. In practice, a judge hearing such a petition would want further evidence from other creditors before proceeding: an administration is intended to work in favour of all creditors, not just one.

As a result, most administrations come about after creditors have made it clear to a company's directors that the end has come, and the directors themselves petition the court. Directors, wary of the personal liability they face if they continue to trade in such circumstances, are unlikely to resist such pressure.

The steering group of 10 creditors (nine banks and Legal & General, the insurance company) would be the most likely vehicle for conveying the view that the end has come. It has no legal power to act on behalf of the banks, but carries considerable weight given that its members are among the largest individual creditors.

While the banks hold the whip hand, other creditors, singly or in groups, could themselves determine the outcome.

In the past week they have become increasingly restless and begun to agitate for repayment, giving the banks the uncomfortable feeling that control of the situation may be slipping away from them.

The others are:

● Holders of Polly Peck's commercial paper, which pose the most serious threat, since money owed to them is already overdue, and – unlike on bank loans – interest is not rolled up if the facility is not renewed. Some £44m was due to be repaid during this month, together with interest.

Commercial paper holders met Polly Peck yesterday morning to discuss the situation. At least one of them, the property company British Land, has already started legal proceedings to recover its money.

In a statement yesterday, British Land said: "We are in no different a position from the other holders of Polly Peck commercial paper totalling £50m and, in the normal way, we have quite properly taken usual steps to protect our interests in respect of the £1m obligation placed for us by our managers."

British Land said it considered it had a different relationship to Polly Peck than did the bankers. Commercial paper was strictly a market instrument which should be honoured as such, the company said.

Like any creditor, British Land can petition for the winding up of Polly Peck if it serves a statutory notice demanding repayment and does not receive its cash within three weeks (this would be *prima facie* evidence under the Insolvency Act that the company was insolvent).

● Holders of the company's bonds. Polly Peck owes bondholders SFr650m (£260.62m) and DM100m (£33.87m), although none falls due before November 19, when SFr50m is due to be repaid.

Although no money is overdue, the bondholders still pose a threat. Cross-default clauses give them the power to call for early repayment, if Polly Peck has defaulted on other payments.

Bondholders are preparing to meet to consider just these things: on October 31, in the case of the six Swiss franc issues, and November 2 for the D-Mark bonds.

Nadir crisis casts shadow of gloom across Turkey

By David Barchard

DESPONDENCY IS getting steadily deeper inside Polly Peck International's Turkish operations, and in Mr Asil Nadir's personal businesses in Istanbul. The group's cash crisis is worsening and prospects of a rescue operation seem to be fading.

"Suddenly we are being told to pay for everything coming from sister companies in the group. Relations between different companies are increasingly acrimonious. It is every man for himself," said one of Mr Nadir's employees.

The prospect of a Polly Peck collapse is casting a shadow across Turkey from Istanbul, where Mr Nadir's press empire and banking operations are based, to the Turkish Mediterranean coast where Meyna, the main fruit and vegetable operation, is based.

Outside the port of Mersin, local farmers wonder openly if they will get paid for this year's citrus crop which is now being harvested.

"Polly Peck has always driven a hard bargain with local farmers and many of them are heavily dependent on the group. Now they are afraid that the company may not have the cash to buy their produce. If it can't buy, then probably no one else will be able to do so," said one resident of Mersin.

He added: "It is a stark contrast to last year when Polly Peck was still cash-rich and willing to pay very high sums to buy out some of its local competitors. Some of them couldn't believe the price they were being offered."

Polly Peck's fruit export operation is thought to be the cash-cow of the group. Vestel, the group's consumer electronics division, was also reporting a strongly improved cashflow in the first half of the year.

If the Polly Peck group is placed in the hands of an administrator, both companies can expect to find buyers fairly easily.

The same is not true of Mr Nadir's loss-making press operations, which include three daily newspapers. Competitors in Istanbul estimate that these cost Mr Nadir about $2m (£1.02m) a month.

Just how these losses have been financed has never been clear. Until recently, employees in the newspaper group did not have to count their costs: the operation seems to have been basically aimed at providing political support in the media for President Turgut Ozal and the ruling Motherland Party. Mr Nadir's press empire even includes an embryonic satellite television operation with German partners.

Now print orders are being cut and unfamiliar economies are being made. Newer and cheaper suppliers are being sought and the axe has begun to fall. At least one senior expatriate in Berkeley Media in Istanbul, handling Mr Nadir's upmarket English-language printing operations, was made redundant last week.

Mr Metin Münir, editor of Güneş, an Istanbul newspaper which under Mr Nadir has been transformed into Turkey's main quality daily, yesterday gently dismissed claims that his paper was unable to buy more newsprint.

"We are doing our best to muddle through somehow," he said. But he appeared to share the general pessimism in the group which holds that it will be placed in the hands of an administrator in the next few days.

Banks in Istanbul say that Mr Nadir is still trying to find a buyer for Impex Bank, the small bank which he bought two years ago. "We have held discussions with some possible buyers," one Istanbul banker said yesterday.

One of Polly Peck's main Turkish bankers, Yapi ve Kredi Bankasi, said yesterday that a £12.5m loan to the group announced 10 days ago had not been disbursed.

"Polly Peck have told us that they do not need the money for the time being and so preliminaries to making the loan, such as mortgage agreements for collateralisation, have not so far been carried out," the bank said.

MR NADIR is to renew his attempts to force the Serious Fraud Office to tell him the basis for its investigation into his affairs, writes Raymond Hughes.

Next Monday lawyers for Mr Nadir will be back in the High Court to appeal against a judge's refusal to allow him to apply for an order directing Mrs Barbara Mills, QC, the SFO director, to supply him with details of the investigation, which began on September 20.

Mr Nadir wants a judicial review of what he claims is the SFO's "unfair" refusal to tell him what transactions gave rise to the investigation.

On October 12 Mr Justice Steyn turned down the application, saying it would be "unworkable to impose a general duty on the director of the SFO to supply particulars if the person investigated asks for such information."

Good administration would be hindered, not promoted, if the disclosure order sought by Mr Nadir was made, the judge said.

Spurs holders still await clarification over finances

By Andrew Hill

SHAREHOLDERS in Tottenham Hotspur, which owns the famous London football club, are still awaiting a formal explanation of the developing situation at the company, following conflicting reports at the weekend about its financial health.

Umbro yesterday confirmed that it signed a deal with Spurs about 10 days ago, under which the Manchester sportswear manufacturer will have sole right to use the Spurs badge on products for four years, beginning next June.

It is understood that the contract is worth about £4m, of which £1.1m may already have been paid. Umbro would not comment on the value of the deal, but it could provide temporary relief for Spurs which is labouring under a heavy burden of debt.

A private company controlled by Mr Irving Scholar, Spurs club chairman, lent £1.1m to Spurs at the beginning of August, having borrowed the sum from Headington Investments, a vehicle for Mr Robert Maxwell, the publisher, and his family.

Mr Scholar has to repay the sum before next Monday, unless he can vary the loan agreement.

A circular on the loan and other matters is expected shortly. Spurs' shares were suspended at 91p last Friday after the Stock Exchange said there was not enough public information available for investors to value the shares.

SMP and Allied London turn in lower results

By Andrew Jack

SCOTTISH Metropolitan Property yesterday reported pre-tax profits down 16 per cent to £10.43m in the year to August 15 1990, while Allied London Properties turned in profits halved from £12.88m to £6.07m for the year to June 30.

Glasgow-based SMP, using an internal valuation, announced net asset value per share almost unchanged at 240.2p, compared with 241.3p last year.

Mr Gordon Milne, managing director, said property values in Edinburgh and Glasgow had held up "particularly well." About 60 per cent of the company's rental income is derived from properties in Scotland.

SMP's short-term debt rose from £37m to £98m in the current year, with long-term debt unchanged at £66m.

Gross rents rose to £17.45m (£12.66m) and net revenue from properties was up to £17.02m (£11.64m).

Earnings per share fell to 7.52p (8.34p). The final dividend of 4.22p (3.75p) makes a total of 6.75p (6p) for the year.

Allied London announced a cut in pre-tax profits of 53 per cent. Mr Geoffrey Leigh, chairman, said the reduction was the result of a provision of £1.9m against its land bank, as well as a weak housing market and the rise in interest rates.

The property write-down reduced its fully diluted net asset value per share to 166p (193p). The total value of the portfolio at June 30 was £220.6m.

Earnings per share dropped to 4.41p (10.84p).

The board recommends a final dividend of 2.455p (2.225p), making a total of 3.53p (3.3p) for the year.

Revised results from Optical and Medical

Concerns about the validity of one of its accounting policies have been brought to the attention of directors of Optical and Medical International which has submitted new figures for the year to March 31 1990.

The policy objected to was that of adding a proportion of the holding company's expenses to the cost of acquisitions. Counsel's opinion was that these expenses should not be so treated.

From pre-tax profits of £6.01m (£7.03m) originally announced, the revised figures are £5.07m (£6.14m). Revised earnings are 8.5p (8.6p), against 8.5p (10.6p) previously and net assets total £28.1m (£29.73m), compared with £28.1m (£30.27m). The dividend is unchanged but will no longer be paid on November 16.

The annual meeting scheduled for October 26 is postponed to November 15.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the subdivisions shown below are based mainly on last year's timetables.

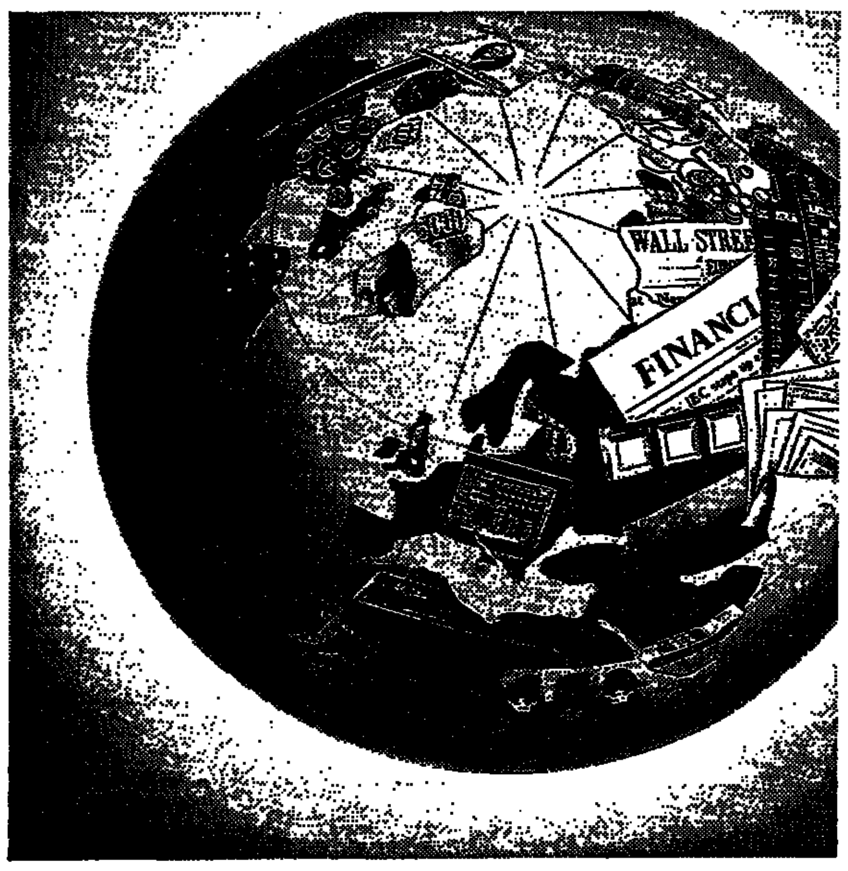
TODAY

Interims- Bexmore Intl, Denistron Intl, FR, First Charlotte Assets Trust, Le Creuset, Plastiseal, Value & Income Trust.

Finals- Barbican, British Assets Trust, Investors Capital Trust, McKechnie, Pressac, Shandwick, Wolseley.

FUTURE DATES

Interims-	
CPU Computers	Oct. 26
Channel Tunnel Invs	Oct. 29
Craig & Rose	Oct. 26
Delyn Packaging	Oct. 26
Fleming Universal Inv Tst	Oct. 26
Futura	Oct. 30
Latham (James)	Dec. 6
Leigh Interests	Nov. 1
Locker (Thomas)	Nov. 16
Reed Intl	Oct. 30
TR Property Inv Trust	Nov. 23
Wessex Water	Dec. 18
Finals-	
Compass	Dec. 12



UK COMPANY NEWS

IMI makes £12m hostile offer for Birmingham Mint

By Andrew Hill

A HOSTILE bid battle broke out yesterday between two Birmingham-based coin-minting companies, Birmingham Mint and IMI, which runs a tiny minting subsidiary as part of its international engineering activities.

IMI launched a £12.2m cash offer for Birmingham Mint, which condemned the bid as "unwelcome and opportunistic" and advised shareholders to take no action.

IMI is offering 85p for each Birmingham Mint ordinary share, and 80p for each preference share. Birmingham Mint's ordinary shares rose 23p to 83p yesterday, and IMI slipped 2p to 185p.

The two companies and the Royal Mint are part of a consortium which makes coins for overseas companies outside the EC. Birmingham Mint and IMI, which do not mint British coins, share about a third of the consortium's business.

Mr John Metcalf, IMI's company secretary, said the group had tried to persuade Birmingham Mint to recommend a takeover to its shareholders, although the target company said it had had no material discussions with IMI.

"What we are trying to do is establish a leading market and technical position in all our niche areas. We think that by acquiring Birmingham Mint we can double our size in minting," he said yesterday. He added that IMI would review the future of Birmingham Mint's engineering and electronics subsidiaries once it knew more about them.

Birmingham Mint has suffered recently because of a weakening performance from its electronics and engineering subsidiaries. It reported pre-tax profits of £208,000 in the year to end-March, compared with £3.41m in 1988-89.

IMI claimed yesterday that the smaller company would be unable to afford the capital investment needed to mint plated coinage, for which demand is increasing. But Mr Tony Cross, Birmingham Mint's chairman, said IMI's claim did not stand up to serious examination.

He pointed out that disposals of the group's loss-making electrical contacts business and Birmingham head office had reduced the group's borrowings from £4.6m to £2m.

IMI also questioned the sustainability of Birmingham Mint's 20 per cent tax charge, but Mr Cross said the group would be able to offset the electrical contacts subsidiary's trading losses against its tax liabilities "for some years".

Birmingham Mint is advised by Chartered WestLB, IMI by Samuel Montagu.

Darby sales surge but profits show 10% fall

DARBY GROUP, the USM-quoted maker and distributor of specialised glass products, saw pre-tax profits fall 10 per cent in 1989-90, but considered that satisfactory in view of the continuing difficulties in the building and building materials industries.

Sales in the year to August 31 rose 38 per cent to £8.97m (£5.13m), reflecting price cuts. The business was volume related and it was important to maintain market share, said Mr Michael Darby, chairman.

Profit came to £870,000 (£967,000). The interim dividend is again 1.3p from earnings of 4.1p (4.4p).

Mr Darby said difficult conditions would continue for the next few months, so it was pleasing that gearing remained "comfortable at under 40 per cent."

Results included a good contribution from the joint venture in Bent Tempered Glass, which was operating satisfactorily. Darby (South East), bought in December, continued to struggle in a poor environment and incurred trading losses of £170,000.

"We had difficulty in establishing a quality workforce", said Mr Darby. The business had been rationalised.

Mr Darby said the date was close for the start-up of trading operations in France.

Increased losses at TDS Circuits

Losses at TDS Circuits increased from £1.08m to £1.22m pre-tax in the six months to August 31. The USM-quoted company, which has reported profits in only one of the last five years, said that actions to return to profit were proceeding well.

Significant investments had been made to improve layout, handling and process control but these were taking place in an unfavourable market which was not expected to get better before the end of the year.

Turnover was lower at £3.41m (£4.33m) for an operating loss of £1.09m (£842,000). After a nil (£374,000) tax charge the loss per share was 13.5p (7.82p) or 3.41p (7.61p) fully diluted.

Sims buys Corton Beach food arm from receivers

By Clare Pearson

SIMS FOOD, the USM-quoted meat group, is acquiring Norpak, a chilled and frozen food wholesale and distribution business, from the receivers of Corton Beach, the food, leisure and motor company.

The disposal comes less than two weeks after Mr Gordon Horsfield and other receivers from Price Waterhouse, the accountants, were appointed at Corton.

The value of the deal was not disclosed.

But Price Waterhouse appears to have taken into account speed as well as money in choosing Sims' offer. It said customers and suppliers had indicated they would not continue trading with Norpak unless an early sale was achieved.

With annual sales of about £50m, Norpak accounted for 35 per cent of Corton's total turnover.

Recently it had been in losses, partly through start-up costs at Nisachill. This, a dedicated business for the Nisa retail group, is excluded from the sale.

Hope for the weakest company

David Thomas looks at the impact of local growth on South Wales

SOUTH WALES Electricity is widely seen as one of the weaker brethren among the 12 regional electricity companies heading for their stock market debut in December.

Not only is it the smallest regional company, with sales last year of just £604m, it also recorded arguably the worst performance when the companies announced their final public sector results in July. Historic cost operating profit fell by 22 per cent to £21.2m in 1989-90; on a current cost basis the decline was 59 per cent to £4.3m, giving a return on assets of just 1 per cent.

To make matters worse, South Wales lost fully 37 per cent of its supply business, more than any other regional company, in the initial outburst of competition this year. Industrial customers, slow growing and liable to be poached, are more important to South Wales than to any regional company.

Its heavy dependence on steel, coal, oil and chemicals underpins the judgment of UBS Phillips & Drew, one of the few large City firms not acting as a broker to an electricity concern, that "this company represents a high risk investment compared to the average of the (regional) companies."

Yet this may paint an unduly gloomy picture of South Wales's prospects in the private sector. True, like other regional companies, South Wales is heavily geared to its local economy because it derives the bulk of its profits from charges for electricity passing over its distribution wires. But it may be poised to benefit from a decade of local economic restructuring.

South Wales Electricity

Wynford Evans: loss of supply customers not a big blow

Customer breakdown of sales

	South Wales(%)	Industry(%)
Domestic	24.4	34.4
Commercial	15.2	25.9
Industrial	57.4	36.7
Other	2.9	3.0

Source: UBS Phillips & Drew

The region has broadened its industrial base through a successful drive to attract inward investment, notably from Japanese electronics companies. It has also begun to develop its small commercial sector, with organisations like the TSB and the Patents Office leading a relocation wave.

Even heavy industry in South Wales has been transformed. British Steel's main plants at Llanwern and Port Talbot are now recognised as among the most efficient in Europe, while the round of pit closures has reduced South Wales's exposure to British Coal.

Analysts are divided about the region's economic prospects, with Phillips & Drew predicting an economic performance in the 1990s slightly below the UK average and Smith New Court, South Wales's brokers, forecasting the opposite.

The company also insists that the loss of supply customers such as BOC, Wiggins Teape and ASW is not the blow it appears. Mr Wynford Evans, South Wales's loquacious chairman, has been busy all summer trying to reassure both opinion formers and the company's staff on this point.

The final supply of electricity to customers (as opposed to distribution along the wires, which remains a monopoly) is low margin business. South Wales says that it would have lost money if it had matched some of its competitors' bids for supply contracts in its area.

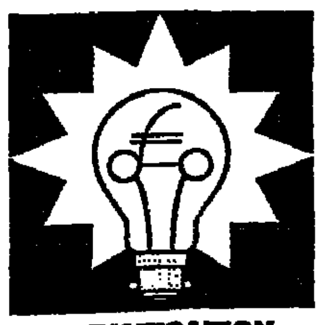
Yet the industrial bias in its regional base means that South Wales is vulnerable to an upsurge in large customers generating their own power. One estimate suggests that a quarter of all South Wales's industrial sales could fall to large combined heat and power schemes, severely reducing the flow of electricity along its local wires.

Industry observers are also divided about the quality of the management team around Mr Evans. Some see it as one of the weakest in the industry, while others point to the strengthening of the line-up in 1988 through the addition of Mr David Jones, who joined as managing director from South Western Electricity, and Mr David Myring, the articulate finance director, formerly with Britoil.

The South Wales team was elated earlier this month by its success in fighting off a challenge from National Power for the 15-year distribution contract for Cardiff Bay, one of the largest urban development programmes in Europe.

The contract will have a sizeable impact on South Wales's core distribution business, where most of its profits are made.

One area needing management attention is the retail network, which made an operating profit of just £200,000 on turnover of £28.8m last year. South Wales's shops have been among the poorer performers in the industry measured in terms of returns on turnover and on average net assets. It will be surprising if the company does not rationalise its retailing operations, particularly in sparsely populated west Wales.



PRIVATISATION

South Wales's capital spending - which jumped 34 per cent to £53m last year - is expected to plateau in 1992-93, reflecting its programme of replacing ageing assets.

Mr Myring says gearing will worsen, but remain manageable. However, productivity increases - above the industry average and underpinned by an 8 per cent cut in staff numbers to 3,770 in five years - may also be on the verge of flattening out.

Potential investors can take comfort from the efforts of the Government to compensate for South Wales's obvious weaknesses. Jointly with Manweb, South Wales has been given the easiest price control formula: it will be allowed to raise distribution charges by 2.5 per cent more than inflation each year. Its initial debt of £25m is the lowest of any regional company.

Moreover, some analysts believe that the shares of the smaller companies like South Wales could be in hefty demand immediately after privatisation if institutions top up their portfolios of electricity stock. In the more medium term, many observers expect South Wales to be a candidate for takeover or merger. South Wales's size and structural vulnerability may not be all bad news for investors.

This is the third of 12 profiles of the regional electricity companies that the FT is publishing every Tuesday

Mowat passes final after plunging to £651,000

By Clare Pearson

MOWAT GROUP, the USM-quoted property and leisure company, is passing its final dividend after reporting that pre-tax profits plummeted from £6.9m to £651,000 in the year to end-June.

The pre-tax figure was struck after a £5.72m interest charge which Mr Brian Dunlop, chairman, told shareholders was "far too high for a company of your size", though he noted that none of the company's interest charges was capitalised.

Mr Dunlop admitted that at the interim stage when he had said he "viewed the second half . . . with optimism", he had wrongly anticipated an early fall in interest rates. The shares were unchanged yesterday at 8p.

Mowat's statement showed that turnover, year on year, had fallen £4.1m to £26.6m. The comparable interest charge was £2.6m. However, owing to a change in the company's year-end, other comparative figures were for the 15 months to end-June 1989.

On this basis, earnings per share were down from 7.19p to 0.65p. Mowat paid a 0.5p interim dividend, compared with total dividends of 1.5p for the 15 months.

On trading, Mr Dunlop said Mowat, in common with many other companies, had found it extremely difficult to sell commercial properties even though these had been successfully let. In the past, commercial property had been a major contributor to profits.

Turnover from the holiday and leisure division was down, although Mr Dunlop said this reflected a shift to operating the sites on a commercial basis.

Mowat's £4.75m shares and cash acquisition of former Third Market leisure company Pennant Group in June was concluded too late to affect these figures.

TECHNOLOGY

Facelift for maths syllabus

A NEW flexible mathematics syllabus designed to encourage students to continue their *studies beyond the age of 16* has been approved by the Oxford and Cambridge Schools Examination Board.

The syllabus, the first of its type, was developed by the Mathematics in Education and Industry Schools Project. It encourages further maths studies by promising those who fail to pass A level exams at the end of two years that they will be eligible for some other sort of credential.

Roger Porkess, director of MEI, said: "One of the things that puts young people off maths studies is the prospect of studying for two years and having nothing to show for it." Porkess noted that the number of maths A level exam passers has fallen by 25 per cent since 1984 – a development which has constricted the numbers entering higher education to study engineering and other technological subjects.

The syllabus is designed to counteract that trend as well as to make studies more relevant to industrial needs. Those who fail to complete the course through to A level, for instance, would still be eligible to pursue engineering courses at most polytechnics and computing or information technology at many universities.

The syllabus is unusual in that it adopts a "modular" approach to maths studies, allowing students to complete components of the curriculum over a two-year period culminating in an A level exam.

The syllabus allows those who find the material too difficult to drop their studies after, say, a year, and still receive a credential. For instance, those who complete three components will be eligible to sit AS level exams in maths and other components can be linked to BTEC diplomas.

The Schools Examinations and Assessment Council has also approved the syllabus, saying it could be a model for studies in other disciplines attempting to increase staying-on rates. So far, about 30 schools have adopted the new curriculum, including the City of London School.

Norma Cohen

Roy Garner and Della Bradshaw on how 'liquid coal' is being used as an alternative energy source

The discovery of a slick operation

The Gulf crisis has sent tremors through industrialised countries which are heavily dependent on oil from the Middle East. Japan's economy in particular has come under scrutiny, from inside the country as much as from abroad. The result has been to help focus Japanese minds on the search for alternative sources of energy.

One development has provided particularly encouraging results. This is in combustion trials in Japan of an emulsified fuel oil, made using the sticky, black oil tar found in vast quantities in the Orinoco river basin of Venezuela.

As well as being an alternative source of energy, the new fuel, called Orimulsion, promises to have price advantages over crude oil. The Venezuelans are marketing Orimulsion as "liquid coal" and anchoring its price to the stable price of solid fuel. The price of crude oil, by comparison, is traditionally volatile, and has rocketed since the Gulf crisis began.

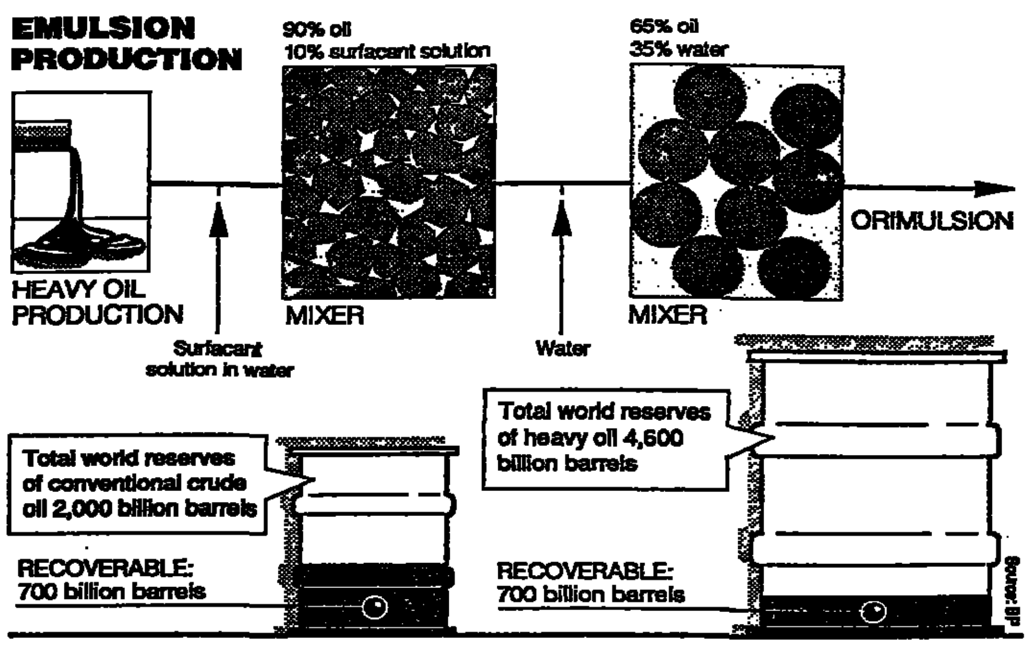
The development is particularly significant because around 50 per cent of the *world's recoverable oil reserves* are in these super-heavy oils and bitumens, found principally in Venezuela and Canada. Venezuela's recoverable reserves alone are said to be twice the size of Australia's coal reserves – equivalent to nearly 11 per cent of the world's known coal deposits.

The problem is that the tar's high viscosity makes transport and processing difficult and has limited its commercial application.

The initial breakthrough in broadening the use of the Venezuelan deposits, the world's largest, came with a patented two-stage mixing process invented jointly by British Petroleum (BP) and Petroleos de Venezuela (PDVSA), the Venezuelan oil company, in 1983. In the process water is mixed with the treacle-like tar to produce a more manageable oil-in-water emulsion.

Since then, combustion trials of Orimulsion have been sponsored by Bitor, the PDVSA subsidiary set up to handle Orimulsion, at several power stations in Japan, Europe and North America.

The recently concluded Japanese tests were conducted jointly by Chubu Electric Power and Mitsubishi Heavy Industries, which is marketing Orimulsion in the Far East. They sought to evaluate the combustibility and handling properties of the fuel. The tests were conducted using a pilot plant which burned 4,500 metric tonnes of Orimulsion over a 4,000-hour operating period.



Masayoshi Arakawa, manager of Mitsubishi's Orinoco Project department, says the results were so good that his company is now beginning to market Orimulsion to power companies and large industrial concerns such as steel and textile manufacturers.

Although the fuel contains approximately 35 per cent water it is easy to burn, because the 10 micron diameter of the oil droplets burns more efficiently than the 200 micron droplets produced when pure oil is forced through a nozzle in the traditional oil-burning power station. Also, the Orimulsion only needs to be heated to a maximum of 60 deg C before it is fed into the burner, compared with 130 deg C for oil. These two savings offset the heat lost through the evaporation of the water. Set alongside coal, Orimulsion has a 9 per cent higher heat content.

In addition to checking the fuel's combustibility, the Japanese researchers studied the effectiveness of the flue gas treatment, needed to remove the relatively large amounts of sulphur and nitrogen present in the fuel. And they assessed the anti-corrosive systems used to combat the high levels of vanadium and heavy metals inherent in Orimulsion.

The research team concluded that Orimulsion has the equivalent handling properties and combustibility of heavy oils. They also confirmed that magnesium added to the fuel helped reduce the high temperature corrosion of boiler tubes caused by the presence of vanadium. However they cautioned that in "super-critical boilers" (the high-temperature, high pressure boilers widely used in Japan) further measures would be necessary to reduce corrosion by sulphur.

The levels of sulphur produced from burning Orimulsion could prove the one Achilles heel of the fuel. Mike Sharkey, technical manager of BP Bitor, which is marketing Orimulsion in Europe, says the fuel has the same sulphur content as high sulphur-bearing mineral oils.

In Europe legislation has been introduced to force power generating companies to reduce significantly their sulphur emissions, and they are looking at ways of doing this. One process, which is proving particularly attractive in Japan, involves converting the sulphur into gypsum so that it can be made into wall board.

Whichever method companies choose to reduce sulphur is "purely a matter of economics", says Sharkey, who points out that the same sulphur reduction technology can be used for Orimulsion as is used for coal or oil.

Arakawa is also optimistic. "It is true an additional investment would be needed to revamp the sulphur extraction facilities of conventional oil-burning power plants – but this would become a more attractive option with any rise in oil prices," he says.

Whether to convert existing oil-burning power stations to burn Orimulsion could be difficult costing decision, but Arakawa points to the changing environment that has arisen since the Gulf crisis.

He believes that Mitsubishi's main market is not the conversion one. "We are introducing this fuel as an alternative option to coal and aim for the development of new custom-built plants."

The Venezuelan classification of Orimulsion as a coal rather than oil substitute could help Arakawa. Japanese government regulations forbid oil utilities from constructing new oil-fired plants, so would-be Japanese Orimulsion users need to obtain a non-oil classification for the fuel.

So far they have succeeded. For the Chubu tests, Japan's Ministry of Finance granted the Orimulsion shipments the designation of "natural asphalt". Future shipments are also expected to be granted this provisional classification.

Whatever the difficulties, commercial exploitation of Orimulsion is moving ahead in Japan. For a five-year period from mid-1991, the Kashima Kita power station, in central Japan, will use 0.25m tonnes of Orimulsion a year, and Mitsubishi Kasei's plant, in Mizushima, plans to use 0.3m tonnes a year from late 1991.

There are equally ambitious plans in the UK, where PowerGen's Ince plant, in Cheshire, will burn 1m tonnes of Orimulsion a year from 1991, as part of a programme lasting several years, and its Richborough station, in Kent, is also conducting trials. The move is part of PowerGen's strategy to reduce its dependence on coal by developing a portfolio of fuels, including natural gas and oil.

The Ince station has been converted to use Orimulsion from oil following initial trials two years ago of the bitumen-based liquid fuel. Conversion was relatively simple, says PowerGen. The only significant adaptation has been the installation of electrostatic precipitators, to help remove the tiny particles of grime produced when Orimulsion is burnt.

Unlike the Japanese marketeers, PowerGen says that its tests have still to prove that Orimulsion could be economically and environmentally viable. Meanwhile National Power, the bigger of the UK's two power generating companies, is also examining the potential of Orimulsion. And in the US Florida Power and Light is planning to burn Orimulsion later this year.

Open the coffers for UK start-ups

By Alan Cane

TECHNICALLY SPEAKING

Without an immediate injection of new funds, GTG Software, a tiny start-up company based in the UK's "Silicon Valley", west of London, will be bankrupt by the end of the month.

It is a new player in the desk-top publishing business, a fast-growing industry based on the power of the personal computer and the laser printer, which has revolutionised the printing industry.

What makes GTG different from many other companies facing a date with the receiver is the faith which other established organisations have in the product it is now struggling to bring to market. They include 3i, the UK investment organisation which has already committed itself to £500,000 in seed capital for GTG, together with International Business Machines and Aldus.

IBM, the world's largest computer company, has already concluded a joint marketing agreement with GTG and has made the company's "Data Base Publisher" package available through its dealer and distributor channels.

Aldus is the developer of "Page Maker", the best known desk-top publishing software for the integration of text and graphics. IBM and Aldus agree that Data Base Publisher fills an important market niche and should set the standard for database publishing programs – software which forms the link between electronic databases and desk-top publishing systems. The market for this kind of software will probably reach $50m a year and GTG could take a large share, they think.

Yet despite these endorsements and prospects, GTG is in a parlous state and its directors stand to lose their houses, the collateral on their bank loans, if the company goes broke.

To be fair, with so much goodwill going for them, it is unlikely that GTG will be allowed to fail. A lifeline of one kind or another is almost certain to be found. 3i is already considering whether it can find more cash to help the company out.

GTG's management is going through a difficult time but its predicament holds powerful lessons for entrepreneurs seeking backing for technology projects in the UK.

The most important one, as Graham Sadd, GTG managing director, openly admits, is not to ask for too little money at the outset. 3i built in a safety margin but, even so, £500,000 greatly underestimated GTG's needs.

Sadd reckons he now needs another £2m in development and, more important, marketing funds to bring the latest version of Data Base Publisher to market.

One of the problems was that Sadd failed to predict a development in technology. His original version of Data Base Publisher worked with software called Gem. But Microsoft of the US then began marketing a new version of its Windows software which now seems likely to become the world standard.

So GTG is working desperately to produce a Windows-compatible version, but Sadd does not believe it will be ready before the second quarter of next year. Until then, there are tax bills to be paid and expenses to be met.

The mystery is why it should prove so difficult to secure comparatively modest funding for a product which seems certain to prove successful and give the UK a much-needed boost in the packaged software market. IBM and others are interested in a stake but their due diligence procedures grind exceedingly slowly.

Sadd has been investigating the possibility of US venture capital support and might well be forced to follow that route.

Is it any wonder that US companies dominate the European packaged software industry?

COMMODITIES AND AGRICULTURE

Japan buying 70 tonnes of gold for coin issue

By Kenneth Gooding, Mining Correspondent

THE JAPANESE Finance Ministry is putting the finishing touches to a purchasing programme for about 70 tonnes of gold bullion (2.2m troy ounces) for 2m legal-tender coins it intends to issue next year to commemorate the coronation of Emperor Akihito.

The Ministry is believed to have bought ten tonnes in August, 40 tonnes in September (pushing Japan's total gold bullion imports to 62.59 tonnes, three times the September, 1989 level) and will end the programme by purchasing 20 tonnes this month.

Three intriguing questions are raised by the purchasing programme:

● From where is the Akihito gold being bought?

● Why is the Japanese government not using some of the 100 tonnes of gold bullion left over from the 550 tonnes it bought in 1986 for similar coins issued to celebrate the 60th anniversary of Emperor Hirohito's accession to the Chrysanthemum throne? (Since his death he is known as emperor Showa).

● Will the Japanese authorities complete their investigations into the alleged forging of Hirohito coins before the new ones are offered for sale?

Some analysts suggest that the revelation that the Japanese government was buying the metal in some quantity explains why physical demand in the gold market was strong in September and there was some tightness of supply.

However, there are also rumours that the Japanese have dealt directly with the Canadian central bank, which for some years has steadily been reducing its gold reserves. These transactions would not have had an impact in the market.

The Japanese have hinted that the 100 tonnes of gold left over from the Hirohito issue might be used for further legal-tender coins, perhaps one to commemorate the coronation of their Crown Prince. But some analysts suggest that by buying at today's relatively cheap prices – gold closed in London at $368.25 an ounce last night – the Japanese could maximise their profit on the new coins. Gold averaged only $368 an ounce in 1986 but the Japanese are believed to have bought at well over $400 an ounce.

The Akihito coins will, aptly enough, be launched on April 1 next year – all-fools day – and will cost Yen100,000, or about twice the value of their metal content at the current gold price in Yen terms.

The Hirohito coins also had a legal-tender value about double that of their gold content and this, according to the Japanese authorities, encouraged forgers to cash in.

These allegations were first made in January but so far the Japanese authorities have refused to give the international coin market any definitive indication of how the supposedly forged coins can be identified. Mr Paul Davies, the British coin dealer embroiled in the affair and who has coins worth £800,000 impounded, says that he can get no response from the Japanese authorities to his pleas for independent experts to be allowed to carry out further tests on the alleged forged coins.

The Akihito coins originally were scheduled to have been launched to coincide with the coronation next month. However, changes being made to reduce the risk of forgery have delayed the introduction. Apart from increasing the gold content of the coins by half, to 30 grams a coin, compared with the Hirohitos, the Japanese will give the Akihito coin a much more complex design.

Norway expects big rise in oil output

NORWAY'S NORTH Sea oil production is expected to peak at about 2.3m barrels a day in 1995, up from the current 1.8m b/d, the Oil Ministry said yesterday, reports Reuters from Oslo.

"We now expect 2.3m b/d (in 1995) but there could be deviations and I do not rule out that it could be higher, for instance 2.5m b/d," Oil Ministry spokesman Mr Egil Helle said.

"The main reason for the increase is new fields coming on stream and more output from existing fields," he added.

But Mr Helle said the figure could change if Norway struck more oil on its continental shelf, which would prevent output from declining in 1996.

New fields like Snorre, to come on stream in 1992, would help boost production, he said. So would the Gyda and Hod fields, which started up earlier this year. Other fields to start production are Draugen in 1993 and Brage, with planned output from January 1994.

"From 1996, production is expected to decline slightly," Mr Helle said.

Norway is West Europe's second biggest oil producer, after Britain. At the end of 1989 the government-funded Petroleum Directorate estimated Norway's recoverable oil reserves at 12.38bn barrels.

● Mineral oil stocks in western Germany would be sufficient to meet end user demand for 146 days in the event of a breakdown in deliveries, the Federal Office of Trade and Industry said. Crude oil reserves totalled 21,695 tonnes and mineral oil product reserves 15,812 tonnes on July 31. Emergency crude oil stockpiles were adequate to meet domestic consumer demand for about 83 days.

Putting flesh on Turkey's meat industry

Geoff Tansey on a project to improve yields from the sector

WHEN NAFIZ Harmankaya sold 42 lambs at the same time as his neighbour sold 52 this year, he came out TL1m (£185) richer.

He is one of about 40 sheep farmers in Turkey's Konya province profiting from the Konya Livestock Project, a government/UN Development Programme project run by the UN Food and Agriculture Organisation.

Livestock production has been low yielding and the relative Cinderella of agricultural development in Turkey, with main the focus being on irrigation and field crops. Livestock development has been concentrated in introducing exotic cattle breeds to improve local herd quality, with sheep barely getting a look in.

Yet in Konya there is a saying which roughly translated means: "Wheat and sheep, the rest is for fun". It neatly sums up the two key factors in the province's economy.

In summer in the wide Konya plains, the wheat is obvious. But there is hardly an animal in sight. The province's 2.5m sheep are resting, huddled alongside village houses, or inside in sheep sheds, sheltering from the sun. Shepherds take them to graze overnight. The landscape is arid and scorched and grazing is scare.

After harvest, the sheep graze the stubble and grain left plus whatever meadow they can find. In winter, they are kept inside for lambing, fed on chopped straw until spring when once again they go out. Some do not come back, felled by disease or wolves, despite the sheepdogs with the spiked collars.

The Konya project aims to change that – increasing farmers' profits and meat production for Turkey. For two years a team of six agricultural extension workers and researchers have been working on the farm to improve sheep production, using well-established technologies that local farmers can use without major investment.

Dr Thieme, the FAO chief technical adviser with the project, stresses the importance of real on-farm adaptive research in which farmers do the work and see if it fits their needs. The team has tested intensive fattening methods, improved housing, eg in ventilation of barns, and improved herd management. Their farmers no longer send lambs out in the spring but wean them early, feed intensively with farmer-produced grain and additional cotton-seed cake, and kill after two months. These lambs weigh 8 to 10 kg more than others sent for slaughter.

The team provides advice but not free inputs. Its members take weighing machines out to the villages and provide an automatic feeder for farmers but there it ends. Others have copied the ventilation and bought extra feeders. Now the team is busy trying to extend the results of this initial work to other farmers, to develop methods further and widen them to cover beef and dairy cattle. Improved winter feeding is crucial and the team has some farmers trying urea-treated chopped straw as a winter feed.

Urea-treated chopped straw is being tried for winter feed

In Konya alone, about 900,000 lambs go to market each year. If just 10 per cent of these were fed intensively and put on 5 kg more the extra 450,000 kg of meat would be worth about TL4.5bn (£900,000) in the butchers' shops.

Overall Turkey has about 68m head of livestock, of which about 40m are sheep, 13m goats and 12m cattle, according to the first livestock census in 1984. Figures have not been published since then but another census is planned for 1991. Livestock productivity is improving according to State Planning Organisation officials, who want to see better statistical reporting in the sector. Demand for meat is growing in Turkey, which has a relatively low per capita consumption estimated at 26.9 kg in 1988. About 7 kg is poultry and just under a half of the rest is sheep and goat meat. According to the sixth five year plan, total meat consumption should rise to 32.4 kg a head by 1994.

Turkey exports just under 3m live sheep annually. The biggest market is Saudi Arabia with the rest going to other parts of the Middle East. The trade was worth almost $230m in 1989 according to Turkey's Export Promotion Research Centre, with an average price per head for sheep in 1989 of $79.

The Turks import very little sheep meat – none for the past two years – and only exported about $30m worth in 1989. However, the government has allowed the import of large numbers of cattle on several occasions to meet local demand and reduce local prices. This, however, resulted in market instability with farmers slaughtering many cattle according to Mr Ahmet Arsan, general manager of Pinar Dairy Products, part of Izmir-based Yasar Holdings, which also owns feed, fertiliser, and meat plants.

By mid-1990 about 6,000 tonnes of skimmed milk powder and 100,000 cattle had been privately imported for slaughter, mainly from Eastern Europe, and he expects another slaughtering round by Turkish farmers. Sheep seem likely to escape these fluctuations and with better productivity, as in Konya, more sheep meat consumption is likely.

Mexico to fight US tuna ban

By Richard Johns in Mexico City

A US ban on the import of yellow-fin tuna fish from Mexico on the grounds that catching methods involve excessive killing of dolphins has raised the threat of unspecified retaliation from the authorities here.

The US Government has said that it will appeal against a Federal Court ruling upholding an appeal by the Earth Island Institute based on the Marine Mammal Protection Act. The similar prohibition went into force against Panama early in September.

Mr Jaime Serra Puche, Minister of Commerce and Industry, said at the end of last week that the Mexican government would adopt unspecified "concrete measures" in the near future if the US Administration failed to quash the ban.

In practical terms the measure means little for Mexico's export earnings as the 10m tonnes of tuna sold annually to the US is only worth about US$1.5m at current values, about 15 per cent of the country's total sales of this fish, according to the Ministry of Fisheries here. But it is feared that the dispute could be an irritant affecting forthcoming negotiations on a free trade agreement.

Both Mr Serra and Ms Maria de los Angeles Moreno, Minister of Fisheries, have stressed that the conflict should be resolved by diplomatic means.

At the same time the US Department of Commerce – with an equal concern about bilateral relations – is opposed to ruling by a federal judge in the California which went into effect on October 10.

Legislation passed in 1988 barred importation of tuna from any country with fishing fleets killing more than twice as many dolphins as US tuna catchers.

US Department of Commerce officials conceded in the North Californian court, where the judgement was made, that Mexican fishermen exceeded the kill rate in 1989 but said it had been lower than the maximum in the first half of 1990.

The judge ruled, however, that the law required a decision on a calendar year rate. If the number killed in 1990 was below the threshold level the embargo would be lifted for 1991, he said.

An appeal to a higher Federal Court by the Commerce Department is likely to be made in the near future, according to the State Department.

Yellowfin tuna and dolphins swim together in the tropical zone of the eastern Pacific Ocean and both get caught in the same fishing nets.

Sri Lankan tea earnings up sharply

SRI LANKA has earned a record Rs11bn rupees (£140m) in the first seven months of this year, compared with Rs6.1bn in January-July period last year, according to a report by Forbes and Walker, leading brokers, writes Mervyn de Silva in Colombo.

The report forecasts that total tea earnings this year will reach Rs18bn, up from Rs13.7bn in 1989.

The substantial rise in prices of tea of all grades, rather than the increase in volume, explains the much higher income, the report says. The average price of the better quality teas moved up from *about Rs61 to Rs92 a kilogram.*

Minister resigns as Peru's agriculture crisis deepens

By Sally Bowen in Lima

PERU'S MINISTER of agriculture, Mr Carlos Amat y Leon, resigned unexpectedly at the end of last week amid fears that lack of financing for the coming agricultural campaign will lead to serious food shortages within five months. No replacement for the minister had been announced by mid-day yesterday.

THE FIVE-day strike at state-owned Centromin, Peru's principal zinc, lead and silver producer, ended at the weekend. Workers settled for a moderate wage rise and all production units were back to normal working yesterday. The *surprise stoppage, which never affected all the company's* installations, was said by a company official to have been politically motivated and generally unpopular. "With the cost of living so high, a miner must now think very carefully before committing himself to a strike," he said.

In a presentation to the senate three days before he resigned, Mr Amat y Leon, a widely respected agricultural engineer, had painted a dramatic picture of Peruvian agriculture in crisis. He estimated a credit requirement to the sector between now and December of almost $300m.

About $50m of this is expected to come through the *private banking system which, for* the first time in thirty years, is being called upon to provide agricultural credit. Commercial banks, however, will restrict lending to larger, established growers – cotton and sugar exporters mainly – on the coast. Small Andean farmers who grow most of Peru's food crops have always relied on the state Agrarian Bank.

But the Agrarian Bank is effectively broke. Recuperations of loans made last year are expected to reach barely ten per cent of the their original value because of the sharp differential between subsidised agricultural interest rates and inflation. Under new, tight fiscal policy, the Agrarian Bank will no longer be able to rely on Central Reserve Bank inorganic emission to supply credit *to the sector as it did under the* Alan Garcia administration.

Other sources of financing are unpromising. The entire current liquidity of the Peruvian financial system is estimated at only around $500m. A possible $100m loan from Venezuela has still to be negotiated.

Mr Amat y Leon warned that failure to find financing and the consequent necessity to import foodstuffs would jeopardise the entire government stabilisation programme with potentially serious social and political consequences.

The ministerial resignation was apparently due in part to presidential interference in high-level appointments. Along with Mr Amat y Leon's resignation came those of a vice-minister and the heads of the two *state-owned food import*ing and marketing bodies, Ecasa (the rice board) and Enci (for general foodstuffs). The two Amat y Leon appointees had aroused presidential suspicions of oligopolistic connections.

The departure of Mr Amat y Leon comes at an unhappy moment. By the end of September only half the average agricultural area had been planted – and the deadline for sowing three-quarters of Peru's farmland is in December. Small farm production fell sharply last season with an unusually harsh drought which caused widespread hardship among 2m growers. The agricultural sector is severely decapitalised with large numbers of livestock slaughtered for lack of fodder.

WORLD COMMODITIES PRICES

MARKET REPORT

Aluminium prices on the London Metal Exchange yesterday surrendered most of last week's net gains as a wave of speculative liquidation revealed the paucity of consumer buying interest. The cash quotation closed at $1,880.50 a tonne, down $87, while the three month's price fell$47.50 to $1,769 a tonne. Dealers said sellers were influenced by the current high level of LME warehouse stocks and expectations that a further rise will be announced today. Buyers were also reported to be "reserved" on the Lead market, where the cash price fell to a 1990 low of £375.50 a tonne. At the London Futures and Options Exchange cocoa initially staged a strongish rally, following Friday's sharp fall. But by the close all the gains had been lost and the March position, which had reached £720 in the morning, was quoted at £703 a tonne, down £1 on the day. "The market is looking for direction and opinions are mixed," said one trader. "There seems to be plenty of cocoa available from origin but there is concern about the political and financial situation in some countries." Coffee prices added to last week's falls with the January futures position finishing £5 down at £570 a tonne.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)		+ or -
Dubai	$23.10-3.20y	-5.25
Brent Blend (dated)	$27.30-7.40	-5.75
Brent Blend (December)	$26.60-6.70	-5.50
W.T.I. (1 pm est)	$30.40-0.50y	-3.00
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$318-323	-30
Gas Oil	$256-257	-43
Heavy Fuel Oil	$110-114	-18
Naphtha	$266-273	-44½
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$368.25	-4.25
Silver (per troy oz)♣	421c	-7
Platinum (per troy oz)	$415.0	+4.3
Palladium (per troy oz)	$93.0	+0.25
Aluminium (free market)	$1865	-100
Copper (US Producer)	131c	+1
Lead (US Producer)	50c	
Nickel (free market)	408c	+13
Tin (Kuala Lumpur market)	16.28r	+0.11
Tin (New York)	267c	
Zinc (US Prime Western)	70c	-3
Cattle (live weight)†	100.12p	-1.67*
Sheep (dead weight)†	125.24p	-4.63*
Pigs (live weight)†	72.84p	-4.23*
London daily sugar (raw)	$261.0q	+3.0
London daily sugar (white)	$318.0q	+2.0
Tate and Lyle export price	£242.5	+2.0
Barley (English feed)	£118v	+0.25
Maize (US No. 3 yellow)	£157	
Wheat (US Dark Northern)	£91	
Rubber (Nov)♥	61.00p	+1.0
Rubber (Dec)♥	60.75p	
Rubber (KL RSS No 1 Nov)	238.5m	
Coconut oil (Philippines)§	$290w	+9.5
Palm Oil (Malaysian)§	$290w	+2.5
Copra (Philippines)§	$205t	
Soyabeans (US)	£141.5	+1.0
Cotton "A" Index	81.75c	
Wooltops (64s Super)	408p	-2

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. q-Nov/Dec. t-Jan. u-Oct/Dec v-Nov. w-Oct/Nov z-Jan/Mar y-Dec. †Meat Commission average fatstock prices. * change from a week ago. ♥London physical market. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.

SUGAR – London FOX		($ per tonne)	
Raw	Close	Previous	High/Low
Dec	228.00	222.00	227.00 221.00
Mar	222.40	217.40	223.20 217.80
May	223.00	219.00	223.40 220.00
Aug	225.60	221.00	225.00 222.40
Oct	226.40	221.20	226.60 224.80
Dec	227.00	223.00	219.00
Mar	229.00	224.40	225.00
White	Close	Previous	High/Low
Dec	312.5	309.0	312.0 307.0
Mar	305.5	302.0	305.5 300.0
May	304.0	298.0	303.5 296.0
Aug	307.0	302.0	307.0
Oct	299.4		303.5 299.4

Turnover: Raw1338 (1668) lots of 50 tonnes. White 1658 (1523)
Paris- White (FFr per tonne): Dec 1589 Mar 1584, May 1550, Aug 1580, Oct 1540

CRUDE OIL – IPE			$/barrel
	Latest	Previous	High/Low
Dec	26.80	31.01	28.40 26.05
Jan	25.40	29.98	28.40 25.40
Feb	25.00	28.98	27.52 24.85
Mar	24.36		26.00 24.25
IPE Index	33.95	33.54	

Turnover: 16085 (12380)

GAS OIL – IPE			$/tonne
	Latest	Previous	High/Low
Nov	244.00	265.75	267.00 249.00
Dec	237.50	280.75	280.75 236.50
Jan	229.00	272.75	254.00 229.00
Feb	220.00	257.50	242.00 218.00
Mar	205.00	242.25	225.00 205.00
Apr	193.00	227.50	220.00 192.00
May	190.00	229.50	212.00 190.00
Jun	190.00	225.00	195.00 190.00

Turnover 13319 (11868) lots of 100 tonnes

TEA

A good but selective market prevailed, with better pekoe dusts a strong feature, reports the Tea Brokers' Association. Better quality north Indians were well supported at 5-10p dearer rates but plain medium Assams tended easier and poorer descriptions continue to be neglected. Africans were fully firm for brighter sorts but others were barely steady with the exception of central African teas which met good demand and prices were dearer. Ceylons met improved demand with better teas dearer. Offshore teas met fair demand. Quotations: quality 230p nominal, medium 135p, low medium 78p.

COCOA – London FOX			£/tonne
	Close	Previous	High/Low
Dec	681	680	675 659
Mar	703	704	720 703
May	729	729	745 728
Jul	754	756	770 756
Sep	780	787	798 777
Dec	803	815	823 803
Mar	836	845	850 837

Turnover:4782 (10675) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for Oct 19 890.29 (873.39) 10 day average for Oct 22 907.38 (914.82)

COFFEE – London FOX			£/tonne
	Close	Previous	High/Low
Nov	557	563	565 551
Jan	570	576	575 565
Mar	565	570	570 562
May	575	577	577 572
Jul	593	595	596 589
Sep	607	610	605
Nov	624	627	620

Turnover: 9046 (6340) lots of 5 tonnes
ICO indicator prices (US cents per pound) for Oct 19: Comp. daily 72.94 (74.26). 15 day average 74.41 (74.43)

POTATOES – BFE			£/tonne
	Close	Previous	High/Low
Nov	70.0	80.0	70.0 65.0
Apr	136.0	142.3	141.0 134.5
May	154.0	162.0	158.5 157.0

Turnover 306 (96) lots of 40 tonnes.

SOYABEAN MEAL – BFE			£/tonne
	Close	Previous	High/Low
Dec	111.90	110.50	111.90
Feb	124.50	124.50	124.50 124.00
Apr	127.00	126.50	127.00
Jun	125.00	125.00	125.00

Turnover 111 (15) lots of 20 tonnes.

FREIGHT FUTURES – BFE			$10/index point
	Close	Previous	High/Low
Oct	1345	1316	1340 1330
Nov	1375	1355	1385 1370
Jan	1315	1315	1340 1315
Apr	1303	1300	1315 1305
BFI	1330	1274	

Turnover 354 (251)

GRAINS – BFE			£/tonne
Wheat	Close	Previous	High/Low
Nov	114.60	114.15	114.60 114.25
Jan	119.00	118.65	119.00 118.80
Mar	122.55	122.20	122.55 122.45
May	126.00	125.65	126.00 125.90
Jun	127.65		127.55
Barley	Close	Previous	High/Low
Nov	113.10	113.35	113.20 113.10
Jan	117.60	117.75	117.70 117.60
Mar	120.65	120.75	120.60

Turnover: Wheat 244 (299). Barley 38 (138).
Turnover lots of 100 tonnes.

PIGS – BFE		(Cash Settlement) p/kg	
	Close	Previous	High/Low
Jan	94.4	94.5	94.0
Feb	96.4	96.5	96.4 96.0

Turnover 18 (66) lots of 3,250 kg

LONDON METAL EXCHANGE			(Prices supplied by Amalgamated Metal Trading)			
	Close	Previous	High/Low	AM Official	Kerb close	Open Interest
Aluminium, 99.7% purity ($ per tonne)					Total daily turnover 13,198 lots	
Cash	1878-83	1965-70		1962-5		
3 months	1768-70	1815-6	1817/1765	1775-6	1769-70	75,436 lots
Copper, Grade A (£ per tonne)					Total daily turnover 22,475 lots	
Cash	1386-8	1383-5	1380/1375	1374-5		
3 months	1364-5	1353-4	1367/1353	1354-5	1360-1	109,785 lots
Lead (£ per tonne)					Total daily turnover 1,966 lots	
Cash	374.5-6.5	384-5	371/370	371-2		
3 months	379.5-8	387.5-8	380/377	376-7	379.5-9.75	10,694 lots
Nickel ($ per tonne)					Total daily turnover 2,529 lots	
Cash	8900-50	8600-50	8775/8750	8775-800		
3 months	8550-75	8325-50	8550/8350	8400-25	8550-75	7,889 lots
Tin ($ per tonne)					Total daily turnover 1,722 lots	
Cash	6200-20	6190-200	6200	6180-90		
3 months	6220-30	6205-10	6245/6200	6200-5	6225-30	8,568 lots
Zinc, Special High Grade ($ per tonne)					Total daily turnover 3,647 lots	
Cash	1345-50	1375-80	1337	1337-8		
3 months	1342-5	1366-8	1350/1333	1332-3	1338-40	19,536 lots

LME Closing £/$ rate: SPOT: 1.9480 3 months: 1.9213 6 months: 1.8993 9 months: 1.8795

LONDON BULLION MARKET		
Gold (fine oz)	$ price	£ equivalent
Close	368-368½	188¾-189¼
Opening	372¼-372¾	191-191½
Morning fix	368.50	189.052
Afternoon fix	367.50	189.317
Day's high	372¼-372¾	
Day's low	366½-367	

Coins	$ price	£ equivalent
Mapleleaf	376-381	193-196
Britannia	376-381	193-196
US Eagle	376-381	193-196
Angel	376-381	193-196
Krugerrand	367-370	188-190
New Sov.	88-90	45-46
Old Sov.	88-90	45-46
Noble Plat	419.95-428.65	215.10-218.50

Silver fix	p/fine oz	US cts equiv
Spot	216.10	423.10
3 months	223.55	431.70
6 months	230.65	440.20
12 months	244.15	457.40

TRADED OPTIONS				
Coffee	Jan	Mar	Jan	Mar
500	74	77	4	13
550	37	45	17	31
600	15	26	46	62
Cocoa	Dec	Mar	Dec	Mar
600	65	119	5	15
650	31	83	21	30
700	12	56	2	53
Brent Crude	Dec	Jan	Dec	Jan
2850				
3000	215			400
3050				

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
Oct	369.6	372.8	367.0	365.8
Nov	370.2	373.5	0	0
Dec	372.4	375.7	375.0	368.7
Feb	376.5	379.8	379.0	373.0
Apr	380.2	383.5	382.3	376.5
Jun	384.1	387.4	382.7	382.0
Aug	388.0	391.4	0	0
Oct	392.0	395.4	393.5	393.5
Dec	396.1	399.5	393.5	392.0

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Oct	412.3	407.7	412.0	409.0
Jan	418.3	412.7	422.5	411.0
Apr	423.4	417.7	427.5	416.5
Jul	428.5	422.9	429.5	425.0
Oct	434.0	428.4	436.0	436.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
Oct	419.4	425.8	420.5	420.5
Nov	420.2	426.0	0	0
Dec	423.3	429.8	429.0	422.0
Jan	425.3	431.8	425.5	422.5
Mar	432.6	438.1	438.0	431.5
May	438.9	445.4	440.0	438.0
Jul	445.0	451.6	448.0	445.0
Sep	451.1	457.8	457.8	450.8
Dec	460.0	466.6	465.0	459.6
Jan	462.8	469.6	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Oct	127.00	126.70	127.50	126.50
Nov	123.30	122.60	123.40	122.75
Dec	117.30	117.50	117.90	116.00
Jan	115.00	115.00	115.00	114.60
Mar	110.70	111.20	111.25	110.10
Apr	109.55	110.00	0	0
May	108.40	108.65	108.70	108.00
Jun	107.60	108.05	0	0
Jul	106.70	107.25	107.20	106.50
Aug	105.65	106.35	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Nov	28.85	33.79	31.00	28.80
Dec	30.41	33.41	30.41	30.41
Jan	28.95	31.95	28.95	28.95
Feb	27.67	30.67	27.72	27.67
Mar	26.49	29.49	27.20	26.49
Apr	25.41	28.41	28.20	25.41
May	24.43	27.43	25.50	24.43
Jul	22.82	25.82	24.00	22.82

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Nov	7420	8640	8200	7420
Dec	8582	9182	8582	8582
Jan	8400	9000	8400	8400
Feb	8059	8659	0	0
Mar	7559	8159	7559	7559
Apr	7109	7709	0	0
May	6759	7359	0	0
Jun	6499	7099	6530	6499
Jul	6379	6979	6450	6400
Aug	6399	6999	6475	6399

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Dec	1184	1199	1211	1170
Mar	1242	1263	1264	1227
May	1280	1293	1300	1270
Jul	1318	1327	1320	1320
Sep	1348	1357	0	0
Dec	1388	1397	0	0
Mar	1423	1432	0	0

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	93.00	91.55	93.40	91.00
Mar	96.35	95.05	96.75	94.60
May	98.75	97.15	98.75	96.90
Jul	100.50	99.30	101.10	99.30
Sep	102.75	101.50	102.90	102.70
Dec	105.40	104.50	0	0
Mar	105.50	105.25	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Mar	9.92	9.66	9.99	9.72
May	9.91	9.70	9.99	9.74
Jul	9.94	9.74	10.00	9.80
Oct	9.97	9.77	10.06	9.85
Mar	10.10	9.90	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Dec	74.82	73.23	75.20	73.40
Mar	74.63	73.63	75.00	73.80
May	74.80	73.97	75.10	74.20
Jul	74.80	74.00	75.05	74.20
Oct	68.15	68.10	68.00	68.00
Dec	66.85	66.70	67.05	66.70
Mar	67.80	67.65	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Nov	112.25	110.20	113.00	110.25
Jan	108.45	107.60	109.60	108.00
Mar	109.70	108.55	110.40	109.00
May	110.35	109.00	110.50	109.50
Jul	110.35	109.00	110.50	110.00

INDICES				
REUTERS (Base: September 18 1931 = 100)				
	Oct 22	Oct 19	mnth ago	yr ago
	1724.7	1725.5	1787.8	1851.9
DOW JONES (Base: Dec. 31 1974 = 100)				
	Oct 19	Oct 18	mnth ago	yr ago
Spot	126.15	126.00	129.52	131.34
Futures	127.59	127.46	134.33	129.62

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Nov	610/6	611/4	616/4	610/2
Jan	625/4	625/6	631/4	625/0
Mar	639/4	639/0	645/0	638/6
May	650/4	650/2	656/0	650/2
Jul	660/4	659/2	665/4	659/4
Aug	657/0	656/0	661/0	656/4
Sep	633/0	628/0	637/0	633/0
Nov	623/4	620/6	625/4	620/4

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Oct	21.97	21.86	21.97	21.75
Dec	22.07	22.16	22.25	22.02
Jan	22.36	22.46	22.54	22.32
Mar	22.83	22.91	22.98	22.80
May	23.19	23.25	23.32	23.15
Jul	23.39	23.45	23.50	23.35
Aug	23.40	23.47	23.50	23.40
Sep	23.32	23.35	23.40	23.25
Oct	23.02	23.10	23.05	22.95

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Oct	182.9	181.1	183.0	180.5
Dec	185.3	186.1	187.5	185.2
Jan	187.6	188.1	189.8	187.5
Mar	190.8	191.2	193.0	190.7
May	191.9	192.9	194.2	191.8
Jul	193.3	193.9	195.0	193.2
Aug	193.2	193.9	195.0	193.0
Sep	189.0	190.1	192.1	189.0
Oct	186.0	185.5	186.8	186.0

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Dec	230/2	228/2	231/4	227/4
Mar	239/6	237/6	240/6	236/6
May	245/6	243/4	246/2	242/4
Jul	249/6	247/2	250/2	246/0
Sep	248/0	245/2	248/2	246/0
Dec	249/0	247/2	249/0	246/6

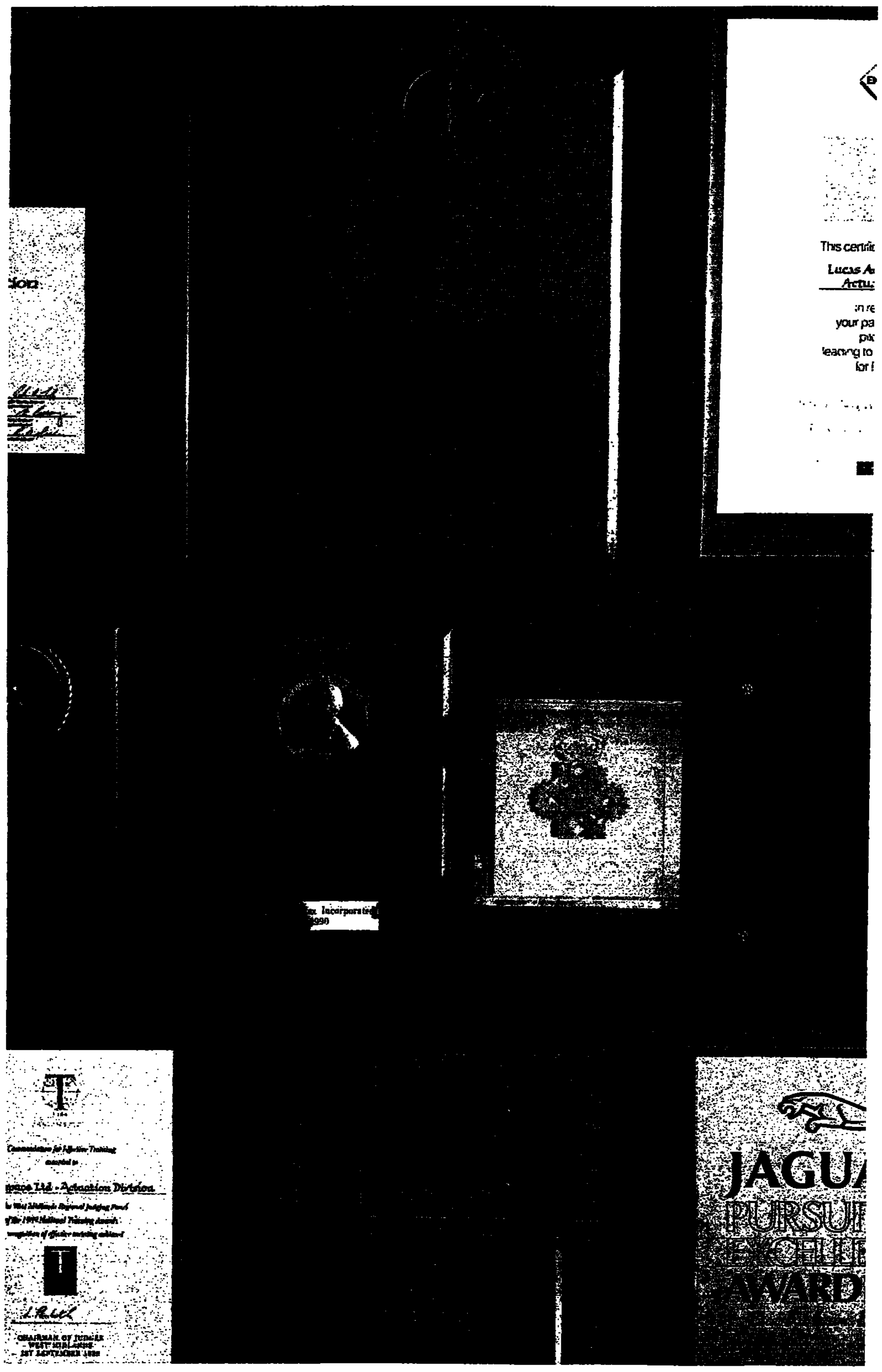
WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Dec	263/2	263/6	265/4	262/2
Mar	277/4	278/2	280/0	277/0
May	285/0	285/4	286/6	283/6
Jul	289/4	290/2	291/4	288/6
Sep	294/0	295/0	296/0	294/0
Dec	304/4	306/4	0	0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Dec	78.75	78.82	78.92	78.52
Feb	73.97	74.42	74.40	73.85
Apr	74.90	75.32	75.35	74.80
Jun	72.92	72.95	72.95	72.50
Aug	70.90	71.25	71.25	70.85
Oct	71.25	79.30	71.52	71.25

LIVE HOGS 30,000 lb; cents/lbs				
	Close	Previous	High/Low	
Dec	53.75	53.95	53.95	53.40
Feb	50.75	51.07	50.85	50.35
Apr	47.47	48.05	47.85	47.35
Jun	51.07	51.65	51.50	51.02
Jul	51.35	51.80	51.55	51.26
Aug	49.85	50.40	49.95	49.50
Oct	45.40	57.17	0	45.40

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Feb	65.75	67.17	66.80	65.26
Mar	65.57	67.00	66.60	65.25
May	65.82	67.10	66.55	65.40
Jul	64.85	66.10	65.35	64.60
Aug	62.30	63.40	62.62	62.30

TOTAL QUALITY HAS ITS REWARDS.



LONG TERM INVESTMENT IN AND COMMITMENT TO TOTAL QUALITY HAS ITS OWN REWARDS.

AND LUCAS QUALITY IS CLEARLY APPRECIATED WORLDWIDE BY MAJOR COMPANIES, SUCH AS BOEING, FORD, IBM AND KODAK.

HIGHLIGHTS OF 1990 ANNUAL RESULTS

SALES	£2,334m	UP 7%
PROFIT BEFORE TAX	£191.2m	UP 2%
EARNINGS PER SHARE (DILUTED)	20.2p	UNCHANGED
TOTAL DIVIDENDS PER SHARE	7.0p	UP 12%
RESEARCH, DEVELOPMENT AND CAPITAL INVESTMENT	£234.8m	UP 25%

EXTRACT FROM CHAIRMAN'S STATEMENT

"THE LUCAS FINANCIAL RESULTS ILLUSTRATE BENEFITS FROM THE IMPROVED BALANCE AND PERFORMANCE OF OUR INTERNATIONAL OPERATIONS – WHICH HAVE ENABLED THE COMPANY TO ADJUST TO MARKET AND OTHER CHANGES WHILE INCREASING INVESTMENT FOR SUSTAINABLE SUCCESS IN FUTURE. AS UNCERTAINTIES CONTINUE IN OUR MARKETS WE ARE CONCENTRATING ON EXPLOITING OPPORTUNITIES FOR ORGANIC GROWTH COUPLED WITH EVEN GREATER DETERMINATION TO REDUCE COSTS AND IMPROVE COMPETITIVENESS."

TONY GILL.

Lucas

THE COLOUR OF INNOVATION

LONDON STOCK EXCHANGE

Slow response to improved trade data

THE BEST UK monthly trade figures for more than three years received a rather lukewarm welcome yesterday in a UK equity market held back by nervousness on Wall St over delays in the attempts to settle the US budget crisis. Hints in the market that a negotiated settlement between Iraq and Kuwait might be possible gave some help to London, however, as the first day of the new equity trading account came to its close.

Account Dealing Dates		
First Dealings: Oct 8	Oct 22	Nov 5
Option Declarations: Oct 18	Nov 1	Nov 15
Last Dealings: Oct 19	Nov 2	Nov 16
Account Day: Oct 29	Nov 12	Nov 26

*New-time dealings may take place from 8.30 am two business days earlier.

The market managed to regain the FT-SE 2,100 mark, but had to struggle to sustain itself above that level after tracing an erratic path in dull, featureless, trading. The FT-SE Index closed 13 points up at 2,102.0, just below the best of the day.

Equities hesitated during the morning, despite a potentially favourable backcloth of falling oil prices and firm performances by New York and Tokyo equities at the end of last week. The announcement that Britain's trade deficit had shrunk to £845m in September, compared with City forecasts of around £1.3bn, brought an immediate uptick, replacing a fall of 1.5 points on the Footsie with a temporary gain of 8 points.

But the advance was quickly trimmed in a market concerned over the apparent breakdown in the US budget negotiations which, London analysts predicted, could imply a fall of as much as 30 Dow points when Wall Street opened for business yesterday.

In the event, Wall Street proved as erratic as London in early trading, opening slowly and fluctuating sharply before showing the predicted fall of 30 Dow points in London trading hours. The UK market, having benefited when New York cut its early loss, held on to its improvement until it closed for the day.

UK equities finally responded, albeit grudgingly, to the favourable, if somewhat muted, response to the domestic trade figures by British Government bonds and sterling. But the most noteworthy feature of the day was the lack of investment business. Seaq volume reached only 336.4m shares, against 464.1m on Friday.

Market strategists appeared unperturbed by the equity market's difficulty in responding to good news yesterday. The September trade figures would "do no harm at all to hopes for another cut in interest rates before the end of the year," according to Richard Kersley at BZW. However, the market still wants to see the promised downturn in domestic inflation. "A fall in the headline inflation numbers must be the catalyst for the market," said Mr John Reynolds at County NatWest.

Also largely ignored yesterday was the substantial dip in oil prices, but this could on further consideration prove a bullish factor for the stock market.

Renewed doubts on Cookson

CONCERN among sector analysts over the outlook at Cookson, the industrial materials group, increased on the news of the £160m sale of its 50 per cent interest in Tioxide Group to ICI.

Cookson is to retain a Tioxide dividend of £11m, but the sale price stunned researchers who had recently valued the stake at some £350m. The deal has the hallmark of a forced sale, according to one, and indicates Cookson's concern to get out of its ICI-shared venture, since it lacks the resources to fund a major capital programme at Tioxide.

Although Cookson is evidently taking action to work its way out of debt, analysts believe this could take some years to achieve. Its markets are sluggish at present, and there are fears that the company might have to turn to shareholders for funds. One specialist trader thought that a slimmed-down Cookson would be unattractive to a predator.

However, others believed that yesterday's deal had improved Cookson's prospects and the shares stood up well. They fluctuated between 65p and 72p in heavy trading of 16m shares before closing only 2 off on the day at 68p.

Hammerson weak

The release of half-year profits by Hammerson Property was something of an anti-climax in the market, with a 12 per cent fall in pre-tax profits and an unchanged interim dividend of 8.5p. Traders were dissatisfied by the absence of specific reference to the company's exposure to earnings in the US, Canada and Australia.

The company's portfolio is nearly 60 per cent overseas-based, and there has been concern regarding the continued effects on earnings of any renewed rise in sterling. The shares closed 8 lower at 550p on very light turnover.

Lucas wanted

Reports of analysts' disappointment with the annual profits of Lucas Industries failed to upset the market. The shares firmed 3 to 117p in brisk trading volume of 3.8m. The UK aerospace to automotive components group revealed slightly higher profits of £191.2m, including a non-recurring net gain of £6.9m.

The figure was below the most optimistic expectations, but they found support. "There were no surprises," said County NatWest's researcher Mr Pete Deighton, "and this is a commendable performance from a cash generative group."

Aerospace activities compensated, as the market had anticipated, for shortfalls in other Lucas markets, particularly automotive components. The problems in world motor markets have been well ventilated and industry sources expect the trend to continue. Nevertheless, Mr Deighton predicts that Lucas will make £187.5m *for the current period, excluding property,* and may lift the dividend. His previous profits estimate was £190m.

Barclays gained 5 to 362p after the bank denied newspaper reports that it was to split into two parts, one based on domestic banking and the other on larger international business customers, and that a rights issue was being contemplated. Midland added 9 at 203p after favourable weekend press comment. Abbey National and Lloyds, both strong performers of late, dipped on profit-taking, with the former losing 4 to 212p and the latter 1 to 275p.

Kleinwort Benson gained 3 to 284p in continuing response to its sale of the Premier Oil stake. First National Finance Corporation was down 12 at 176p on suggestions that S.G. Warburg had lowered its profit forecasts. Warburg refused to comment on the speculation.

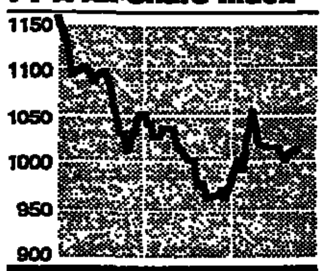
Highland Distilleries firmed yet again on consideration of last week's deal which gave it a stake in Rémy-Cointreau. Highland rose 7 to 232p.

Oil shares regarded the decline in the crude oil price with suspicion. Sector majors barely moved, or followed share indices a little higher. Analysts blamed the continuing uncertainty over how Iraq's occupation of Kuwait would be resolved. "The oil price could easily spike upwards again," said one. They added that the sector had been heavily sold last week.

Shell firmed 4 to 453p and BP added a penny at 338p, with reports of a bull position being taken in the latter by one player through the traded options market. BP was the fifth most active instrument in the traded options market, where contracts for the equivalent of 1.25m shares changed hands. Volume in the share market was 5m. Lasmo was 7 better at one point but ended unchanged on the day at 455p.

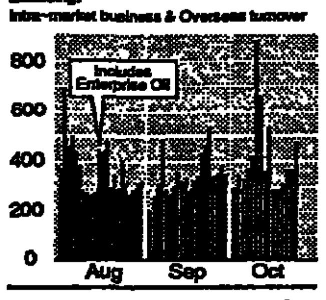
Building issues suffered from a lack of turnover. It was only a late flurry of activity that allowed Pilkington (152p, up 2) and Blue Circle (also 2 firmer, at 213p) to each trade 1m shares. Tarmac was the most active stock with 2m shares changing hands. But even this was conducted in a market lacking any fresh incentives.

FT-A All-Share Index



Equity Shares Traded

Turnover by volume (million) Excluding: Intra-market business & Overseas turnover



Major dollar earner Cable and Wireless rose 7 to 430p on a 1.8m turnover as sterling fell and it was announced that the price of cables had increased. Racal, however, shed 2 to 152p on a volume of 2.1m. Strategists pointed to worries over selling of the company's shares in the US and said the stock had moved down to the extent that it was beginning to look attractive.

Concern over Hawker Siddeley's cash flow was blamed for a relative lack of progress in the shares which, in light trading, added only 1 at 392p in spite of the general firmness of the equity sector.

IMI, the engineering and metal refining group, shed 2 to 185p as downgradings on Friday of analysts' profit forecasts filtered through to the market.

An announcement that IMI was making a £12.2m takeover bid for Birmingham Mint, the Midland coin maker, in the form of an 85p offer for the ordinary shares and an 80p bid for the preference shares was not seen as a significant factor in IMI's share price but brought a very positive response in the takeover target, which shot up 23 to 83p.

The growing belief that Siebe was mistaken to buy Foxboro, the US automation and control equipment maker, brought in a steady flow of sellers and the shares fell 10 to 257p.

The market gave a guarded response to the sharp fall in oil prices, feeling that they were likely to swing back up again, and rises in the heavily oil-influenced transport sector were slender. British Airways only picked up 2 to 148p on a turnover of 7.7m.

Last week's bounce for *Davies & Newman*, holding company for the Dan Air airline, on the appointment of a new director proved short-lived and the shares slipped back 15 to 140p.

However, Tiphook, the container leasing and trailer rental company which has heavily underperformed the market for some time, continued its recent rise to gain 11 to 364p as buyers moved in on what they consider an undervalued stock. Associated British Ports performed strongly, rising 7 to 214 as the market felt that the stock had been oversold and buyers moved in.

Stormgard, the office supplies company, dipped sharply when short-term investors elected to realise profits and the price closed 9 down at 24p. The shares have recovered strongly from last month's low of 14p, which followed the warning at the annual meeting that mid-term profits were unlikely to show a material profit before tax. A trader said yesterday the appearance of one sizeable seller triggered smaller share sales.

Continuing doubts over the Severn Trent Water offer for Caird caused shares of the latter to fall 5 more to 52p. Severn said yesterday it was not able to comment on the status of its offer, which it extended to October 23. The water company also drew attention to the conditions of its offer regarding the reconfirming of Caird's profits forecast.

A profits dowgrading by Kleinwort Benson with the recommendation to be underweight brought Hickson International back 3 to 125p. W. Canning was an even heavier loser at 88p, down 8, while USM-listed Darby Group slipped 5 to 98p after revealing lower half-yearly profits.

W.H. Smith eased 2 to 365p after Laing & Cruickshank lowered its current year forecast to £93m from £95m. Laing said current sales are disappointing and there could be a slow build-up to the important Christmas period.

Sainsbury rose a penny to 309p after County NatWest was believed to have found an institutional buyer of 2.2m shares. Aside from the County interest, dealers noted that Sainsbury presents its annual results on November 7 and for the first time is having an analysts' meeting on the same day which, thought some market sources, suggested an announcement may be in the offing. Asda was unchanged at 129p as some investors continued to switch from the ordinary stock and into the convertible Eurobonds. There was also some hedging in the traded options market against the switching.

Unilever improved 8 to 658p following the strong performance by Wall Street on Friday. Berisford was up 2 at 28p following reports that Hanson was interested in bidding for its sugar division. But dealers said that interest in Berisford had been low as Tate & Lyle has yet to find out whether it will be allowed by the Monopolies and Mergers Commission to join any possible auction. Tate & Lyle fell a penny to 247p, while A.B. Foods, which has also expressed an interest in British Sugar, eased 1 to 398p.

Light demand in thin volume after a bullish report last week from a broker helped Reed International climb 12 to 357p. Turnover was 696,000. Pearson benefited too, adding 5 at 615p on high volume for the stock of 1.1m shares.

Wace, a design and typesetting concern, slipped 6 to 186p after reporting the effective failure of its 100p a share rights issue. Of the 37¼m new 8 per cent convertible preference shares, only 3.58 per cent were taken up.

Hunterprint's confirmation that refinancing talks were "at an advanced stage" helped the shares recover 10 at one point before closing 5 better on the day at 23p.

Rank Organisation cancelled meetings with individual analysts in favour of a collective briefing on October 30. Traders interpreted this as implying market sensitive information would be revealed. The added uncertainty left the shares 2 easier at 533p.

Euro Disneyland stalled after last week's steady climb. The shares retreated 14 to 910p.

Marketmakers reported a short position in Ladbroke after one of their number sold a block of 250,000 shares. Positive press comment was also said to have helped. The shares rose 7½ to 277p ex-dividend. Turnover was 4m shares.

Rising hopes over the possible management buy-out at Goldcrest left Brent Walker 9 higher at 70p ex-dividend after last week's weakness.

Video Store became the latest casualty of what leisure analysts now recognise was an appalling summer for video rentals. It dropped 3 to 4p.

Allied London Properties moved a penny lower on news of a near halving in annual profits. While the dividend total for the year was increased slightly, the company decided to make a £1.9m provision in respect of its land bank, having reviewed the less than favourable market conditions.

Rosehaugh finished unchanged at 88p in spite of a sombre assessment by Kleinwort Benson of the company's joint construction venture with Stanhope. The letting of four buildings in the Ludgate development in London, announced last week and which is part of the joint venture, was seen as encouraging, but went only part way to reducing the gap between servicing development debt on the project and rental income. Stanhope also closed unaltered at 86p.

Property development and investment specialists Waterglade International moved up sharply by 10 to 40p on news that the company has sold its interest in five property developments in Germany for DM13m (£4.4m). Waterglade sold its stake to reduce net borrowings, which now stand at £35.5m.

■ Other Market statistics, including the FT-Actuaries share index, Page 28

NEW HIGHS AND LOWS FOR 1990

NEW HIGHS (6) ... NEW LOWS (46) ... [illegible]

FINANCIAL TIMES STOCK INDICES

	Oct 22	Oct 19	Oct 18	Oct 17	Oct 16	Year Ago	1990 High	1990 Low	Since Compilation High	Since Compilation Low
Government Secs	79.76	79.10	79.43	79.78	79.51	84.66	84.20 (2/1)	74.13 (30/4)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.80	88.67	88.87	88.90	88.65	94.05	92.91 (6/1)	83.80 (30/4)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary Share	1633.6	1621.5	1618.1	1600.8	1613.3	1772.6	1969.3 (3/1)	1510.4 (24/9)	2008.6 (5/6/89)	49.4 (26/6/40)
Gold Mines	188.4	189.7	189.5	183.8	183.2	198.3	379.5 (6/2)	163.2 (15/6)	734.7 (15/2/83)	43.5 (26/10/71)
FT-SE 100 Share	2102.0	2089.0	2082.6	2068.0	2085.5	2189.7	2463.7 (3/1)	1990.2 (25/9)	2463.7 (3/1/90)	986.9 (23/7/84)
Ord. Div. Yield	5.87	5.90	5.92	5.99	5.95	4.66				
Earning Yld %(full)	12.27	12.32	12.35	12.50	12.42	11.21				
P/E Ratio(Net)(*)	9.91	9.83	9.81	9.70	9.76	10.78				
SEAQ Bargains 4.45pm	18,987	20,827	17,459	18,005	19,232	21,323				
Equity Turnover(£m)†	-	705.79	703.34	724.37	682.54	474.46				
Equity Bargains†	-	18,563	18,804	17,336	17,222	20,319				
Shares Traded (ml)†	-	452.4	365.7	364.8	308.7	241.7				

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold mines 12/9/55, Basis 1000 FT-SE 100 31/12/83. * Nil 9.76

Ordinary Share Index, Hourly changes — Day's High 1634.7 — Day's Low 1617.3

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
1625.8	1617.8	1621.4	1619.8	1629.7	1626.6	1628.3	1631.2	1633.4

FT-SE, Hourly changes — Day's High 2103.4 — Day's Low 2083.9

Open	9 am	10 am	11 am	12 pm	1 pm	2 pm	3 pm	4 pm
2083.1	2085.2	2086.2	2085.3	2093.6	2093.3	2095.5	2098.8	2101.7

GILT EDGED ACTIVITY

Indices†	Oct 19	Oct 18
Gilt Edged Bargains	102.9	102.0
5-Day average	102.8	101.1

*SE Activity 1974. †Excluding intra-market business & Overseas turnover.

London report and latest Share Index: Tel. 0898 123001.

TRADING VOLUME IN MAJOR STOCKS

Volume 000's, Closing Price, Day's change — [illegible]

Based on trading volume for most Alpha securities dealt through the SEAQ system yesterday until 4.30pm.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

Index-Linked

[illegible]

BRITISH FUNDS—Contd

[illegible]

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base for indexing. (le 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for February 1990: 120.2 and for September 1990: 129.3.

INT. BANK AND O'SEAS

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

AMERICANS—Contd

[illegible]

CANADIANS

[illegible]

Continued on next page

APPOINTMENTS

Managing director at Air UK

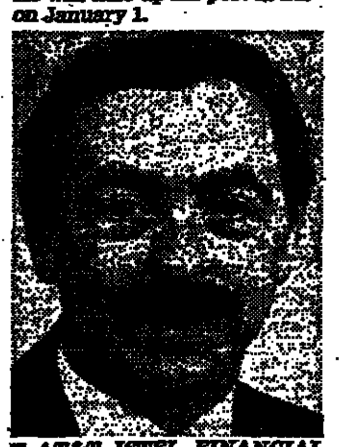
■ AIR UK has appointed Mr Andrew Gray as managing director. He joined last June from Herts Europe where he was marketing director. Prior to that he held management posts with British Airways and Air Europe. Mr Stephen Hanscombe retires as managing director of Air UK, becomes non-executive chairman, and a member of the group board. He succeeds Mr Neil Forster who becomes chairman of the Air UK Group comprising Air UK, Air UK Leisure, and Air UK Engineering.

■ Mr James Jerram was yesterday appointed director of BRITISH RAIL responsible for finance and planning, *writes Andrew Taylor.*

Mr Jerram was finance director of ICL, the British computer manufacturer, between 1984 and 1987. He replaces Mr Derek Fowler, 61, who is leaving BR after 26 years.

British Rail said Mr Fowler had planned to retire earlier but had been persuaded to take the post of deputy chairman until Sir Bob Reid, BR's new chairman, could take up his job.

Mr Jerram has been involved in financial management at SD Scicon and Sema, two software companies, since 1987. He will take up his post at BR on January 1.



■ AT&T ISTEL FINANCIAL SERVICES, Redditch, has appointed Mr Dougie Martin (*pictured*) as business services director, banking services division. He was business development director of Fellside Roe, disaster recovery arm of AT&T Istel. Mr Mike Pickup has been appointed business development consultant, financial services division, targeting the banking sector. He was responsible for introducing home telephone banking in the UK.

■ Mr M.H. Hayes has been appointed group managing director of BRITISH SYPHON, and Mr J.M. Yates, company secretary, joins the board.

■ HYPO FOREIGN & COLONIAL PORTFOLIO FUND SICAV has appointed Mr E.C. Elstob as chairman, succeeding Mr C. Arend who has retired.

■ Mr Michael J. Garland has been appointed director of aircraft finance at ELECTRA AVIATION. He was marketing director at BAII.

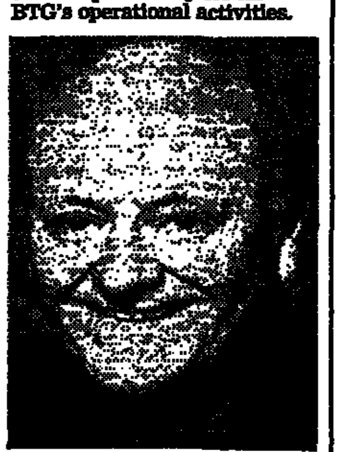
■ Mr Peter Shorthouse has been appointed a controller of structured finance within group treasury at NATIONAL HOME LOANS HOLDINGS. He was a senior manager at S.G. Warburg Securities.

■ BRITISH AIR FERRIES, Southend, has appointed Mr Barry Stone as managing director, engineering division. He was assistant managing director of Field Aircraft.

■ Mr John F. Valentine has become chairman and group chief executive of the recently-formed FAIRMEAD GROUP. He was previously a main board director of Fisons and group managing director of Southern Water.

■ Henry Barrett Group subsidiary, DON REYNOLDS, Bradford, has appointed Mr Mark Sayers as managing director. He joins from Ward Group, where he was managing director of four of its subsidiaries.

■ Dr Derek Schafer has been appointed chief executive officer and president of BRITISH TECHNOLOGY GROUP USA. He was previously operations director with responsibility for all BTG's operational activities.



■ Lord Elliott of Morpeth (*pictured*) is to chair the new joint board recently-formed by the integration of the NEWCASTLE AND GATESHEAD WATER COMPANY and SUNDERLAND AND SOUTH SHIELDS WATER COMPANY. The vice chairman is Mr D.S. Gray, currently chairman of Sunderland and South Shields. Mr Hugh Speed, managing director of Newcastle & Gateshead Water Company, has become managing director of the integrated management team. Both companies are owned by Lyonnaise des Eaux-Dumez Group.

■ Mr T.J. Hately has been made managing director of THE SELSON MACHINE TOOL CO.

LONDON SHARE SERVICE

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BANKS, HP & LEASING

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
£13⅜	£9	ABN Amro F15	£9½	......	Q28%	2.1	8.9	5.3
303	161	ANZ SA1	165	+5	44c	1.4	10.8	6.5
233	172	Abbey National 10p	212	−4	5.7	4.3	3.6	8.6
*274	128	Allied Irish Ord	154	+6	Q40%	3.3	5.8	7.0
85	47	Anglo Irish	52	......	†Q8.7%	2.7	8.1	7.5
93	61	Ansbacher (H.) 1p	66	......	2.5	1.3	5.1	19.0
£71¼	£32⅞	Bancaire Cie Fr100	£44⅝	+½	Q12¼%	–	2.9	–
£22⅜	£13⅝	Banco Bilbao Viz	£14¼	......	Q49.1%	2.7	5.4	10.1
286	136	Bank Ireland Ir£1	154	+9	Q14.7%	2.9	8.5	5.4
£19½	£18	Bank Leumi	£19½	......	–	–	–	–
351	320	Bank Leumi (U.K.)	350	......	†15.0	–	5.7	–
129½	100	Bank Scotland	107	−2	†4.55	3.4	5.7	6.8
100¼	83¼	Do. 9¼pc Irrd Pf	93½xd	−½	9¼%	–	13.2	–
54	39	Bank of Wales	42	+3	2.8	0.8	8.9	(20.2)
428	290	Barclays £1	362	+5	††19.57	3.5	7.2	5.0
22	11	Beachmark 20p	12	+1	0.75	–	8.3	–
335	238	Brown Shipley £1	240	......	12.0	2.2	6.7	7.8
*435	285	Cater Allen £1	338	......	N24.5	–	9.9	–
179	49	Chancery	49	......	9.0	2.7	24.5	2.0
£23¼	£15⅛	Commerzbk DM10	£15⅝	−⅛	Q18%	–	4.0	–
£13⅛	620	Dai Ichi KBk Y50	733	+4	Q17%	6.2	0.5	34.6
*£313	£194½	Deutsche Bk DM50	£213½	+¾	Q28%	–	2.2	–
£20¾	£14⅝	Espirito Santo	£15	......	Q75c	5.1	2.5	7.7
253	166	First Nat. Fin. 10p	176	−12	13.0	2.1	9.8	6.1
121	82	FNFC 6.3pc Cv. Pf	88	−5	6.3%	–	9.5	–
£13⅛	633	Fuji Bank Y50	812	......	Q17%	◆	0.4	◆
325	262	Gerrard & National	275xd	−2	19.0	–	9.2	–
154	93	Guinness Mahon 10p	93	−1	2.1	–	3.0	–
328	194	Hambros 20p	212	......	11.5	–	7.2	–
128	88	Do 7.5pc Cv Pf	94	......	7½%	–	10.6	–
53½	31½	HK & Shang. HK$2.50	32	+½	††Q38c	–	8.0	–
478	378	Joseph (Leo) £1	378	......	15.85	–	5.6	–
150	105	King & Shaxson 20p	115	−1	10.25	–	11.9	–
422	262	Kleinwort Benson Grp	284	+3	16.0	2.5	7.5	6.7
642	316	Kyowa Bank Y50	412	+6	Q14%	◆	0.7	◆
316	182	Lloyds £1	275	−1	†13.3	2.6	6.4	6.5
56	44	Lon. Scot. Bank 10p	47	......	†2.4	1.9	6.8	9.3
404	185	Midland £1	203	+9	†18.0	2.6	11.8	4.2
£14½	£10½	Mitsubishi Bank Y50	£10½	......	Q17%	◆	0.3	◆
£12¼	£4⅞	Mitsubishi Tst & Bk Y50	£6⅞	+⅛	Q17%	12.4	0.6	14.5
£10⅝	£4⅞	Mitsui Taiyo Kobe Y50	£6⅞	+⅛	†Q16%	6.0	0.5	35.8
904	410	Mitsui Tst & Bk Y50	542	+9	Q17%	◆	0.6	◆
326	243	Nat Aust. Bk. A$1	249	+2	sQ50c	1.6	8.2	7.6
368	227	NatWest £1	257	+2	†16.7	3.3	8.7	4.7
£210	£115	Ottoman Bank	£130	......	Q110%	2.8	8.5	4.2
55	30	Rea Bros. Group	30	......	0.5	3.2	2.2	15.0
227	119	Royal Bk. Scotland	149	−4	†7.2	3.8	6.4	5.2
795	368	Saitama Bank Y50	413	+2	Q14%	◆	0.7	◆
£12¼	567	Sanwa Bank Y50	701	+19	Q17%	6.7	0.5	30.7
902½	613	Schroders £1	648	......	h12.5	5.9	2.6	8.7
712½	413	Do. £1 N/V	443	......	h12.5	5.9	3.8	6.0
£25¼	£10	Sec. Pacific $10	£11	+⅛	Q$2.52	–	11.6	–
616	251	Standard Chartd. £1	260	−2	35.0	1.4	17.9	(4.9)
£16¼	£5⅞	Sumitomo Bank Y50	£7½	+½	††Q16%	7.5	0.4	31.2
£11	£4⅞	Sumitomo Tst & Bk Y50	£6	+⅛	Q17%	6.9	0.6	25.5
147	114	TSB	138	......	†5.8	2.5	5.6	9.0
175	124	TSB Bank Ch'nel Is £1	137	......	†Q6.7	3.5	4.9	6.8
£463	£4⅛	Tokai Bank Y50	£5⅛	+⅛	Q16%	4.1	0.8	38.5
920	484	Toyo Tst & Bk Y50	648	+11	†Q15.2%	6.9	0.5	28.6
611	499	Union Discount £1	534	−1	33.0	–	8.2	–
525	286	Warburg (S.G.)	325	+1	15.0	3.8	6.2	5.7
180	99	Do 6pc Cnv Prf	110	+1	6%	–	7.3	–
279	163	Westpac SA1	166	+2	Q52.5c	1.5	13.5	4.8
420	320	Wintrust 20p	320	−5	†7.8	4.2	3.3	8.8
969	509	Yasuda Tst & Bk. Y50	670	+12	Q17%	◆	0.5	◆

Hire Purchase, Leasing, etc.

1990 High	Low	Stock	Price	+ or −	Div Net	C'vr	Y'ld Gr's	P/E
175	40	CLF Yeoman 50p	50	......	Q18.5%	3.2	17.5	2.4
71	52¼	Cambridge Grp Ir50p	52¼	−4	Q7½%	15.6	0.6	12.8
55	11	‡Capital Leasing Ir10p	19½	......	†Q3.2%	3.5	5.4	4.8
68	50	Cattle's (Hldgs) 10p	57	−2	†3.58	1.9	8.4	8.2
426	362	Prov. Financial	393	......	†20.5	2.1	7.0	9.1
*232	134	‡Reflex Invs. Ir5p	157	......	Q51%	7.9	1.5	11.6
225	193	Secure Trust Grp. 1p	195	+3	†8.5	2.8	5.8	8.2
210	135	Woodchester IR20p	179	+6	†Q16.7%	5.9	1.7	12.9

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS – Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ELECTRICALS – Contd

[illegible]

ENGINEERING

[illegible]

ENGINEERING – Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.) – Contd

[illegible]

INDUSTRIALS (Miscel.) – Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

[illegible]

Commercial Vehicles

[illegible]

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MOTORS, AIRCRAFT TRADES — Contd

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY — Contd

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRANSPORT

[illegible]

INVESTMENT TRUST

[illegible]

INVESTMENT TRUST — Contd

[illegible]

INVESTMENT TRUST — Contd

[illegible]

Net asset values supplied by County NatWest Wood Mackenzie

FINANCE, LAND, ETC

[illegible]

WATER

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS — Contd

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES — Contd

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's
		Tins					
35	25	♦Ayer Hitam $M1	25	.....	♦h053.3d	0.7	–
75	45	Gopeng Berhad M$0.50	45	.....	Q11c	2.6	4.6
67	27	Malaysia Mng. 10c	31	–1	07c	2.3	4.2
160	130	Petaling $M1	150	.....	♦Q180c	–	25.2
125	125	Sungei Besi $M1	125d	.....	–	–	–
90	90	Tanjong Tin 15p	90d	.....	–	–	–
		Miscellaneous					
190	90	Anglesey Mining 9p ... γ	90	.....	–	–	–
110	13	Do. Warrants ... γ	16	.....	–	–	–
17	7	Anglo-Dominion	7½	+½	–	–	–
651	222	Bond Intl Gold	235	+6	–	–	–
37	13	Butte Mining 10p ... γ	13	–½	–	–	–
44	8½	♦Colby Mines	8¼	+¼	–	–	–
122	25	Cons. Murch. 10c	25	–3	030c	5.5	–
26	3	♦DRX Inc	3	.....	–	–	–
24½	7½	♦Eneex Int. Ir10p ... γ	8½	.....	–	–	–
96	30	Europa Minerals 2p ... γ	30	.....	1.0	–	4.4
86	25	Greevor ... γ	26	.....	–	–	–
43	13	Greenwich Res ... β	15m	.....	–	–	–
£10¼	£4¹³⁄₁₆	♦Hemlo Gold Mines	£4⅞	.....	$0.20c	–	1.8
£14⅝	£9⅞	Homestake Mining $1	£9⅞	+⅞	020c	–	1.1
49½	22	♦Kenmare ... γ	24	+½	–	–	–
16	4½	♦McFinley Red Lake	5¼	+¼	–	–	–
29¾	7	♦New Sabina Res C$1	12¼	–1¼	–	–	–
457	140	Northgate Expl C$1	150	–1	–	–	–
39¾	3½	♦Nor-Quest Res	4¼	+¼	–	–	–
255	90	Oryx Gold Hldgs	102	.....	–	–	–
93	44	Plateau Mining 20p ... γ	45	.....	–	–	–
605	392	RTZ 10p ... α	424	+9	†18.5	2.5	5.8
14	4½	♦Thorco Res Inc	4½	.....	–	–	–
18	5	Vizzava Hldgs 5p ... γ	5	–2	–	–	–
178	135	♦Young Group 10p. γ	140	.....	†7.8	2.7	7.4

THIRD MARKET

1990 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
30	5	Analysis Hldgs 20p ... γ	5	.....	–	–	–	–
53	25	Anzaman Res 10p ... γ	51	.....	–	–	–	–
20½	10½	Aerospace of Brit 5p ... γ	12½	–½	–	–	–	–
1½	0¾	Barbican Hldgs 1p ... γ	1¼	.....	–	–	–	34.8
45	31	Biocure 1p ... γ	34	+1	–	–	–	–
18	7	Bormio Exploration ... γ	9	.....	–	–	–	–
225	205	Cafe Inns £1	225	.....	–	–	–	14.1
22	11	Caldwell Inv. 10p ... γ	11	.....	–	–	–	–
16½	10½	Caspen Oil 10p ... γ	14	.....	–	–	–	♦
25	16	Celtic Gold ... γ	19	.....	–	–	–	–
95	36	Chelsea Artisans 5p ... γ	36	.....	–	–	–	–
24	6	ChemEx Intl ... γ	17	.....	–	–	–	–
215	195	Citybond Storage Serv	195	.....	–	–	–	–
23	10½	Dana Expl	11¼	.....	–	–	–	–
22	12	Corecorn Leisure 5p ... α	14	.....	z0.38	5.1	3.6	5.7
65	31	Egloton Expln Ir50p ... γ	31	.....	–	–	–	–
16	2	Do. Wrrnts ... γ	2	–2	–	–	–	–
18	5	Far East Res 10p ... γ	6	+½	–	–	–	–
125	105	Fast Forward Inns	105	.....	–	–	–	–
45	4½	Feltrim Min Ir0.20	5½	.....	–	–	–	–
55	20	Glencar Expln ... γ	31	.....	–	–	–	–
225	65	Haemocell 1p ... γ	115	+2	–	–	–	–
60	23	Hartley Baird 5p ... γ	24	.....	0.75	5.9	3.8	5.1
100	65	Hiklare 5p ... γ	70	.....	1.0	7.9	1.9	8.7
43	29	Image Store Hldgs 10p ... γ	29	.....	–	–	–	–
62	27	Ivernia West ... γ	49	+3	–	–	–	–
97	57	Kells Mins Ir5p ... γ	58	.....	–	–	–	–
♦33	6	Kemp (P.E.) 5p ... γ	6	.....	♦0.5	–	‡	–
57	6	Leading Leisure 5p ... α	6	.....	–	–	–	1.1
398	235	M.L. Labs. 1p ... γ	235	.....	–	–	–	–
6¼	3¼	Moray Firth 5p ... γ	4	+¼	–	–	–	–
45	25	Navan Resources ... γ	25	.....	–	–	–	–
57	28	Ovoca Gold IR 2p ... γ	28	–1	–	–	–	–
72	22	Oxford Virology 5p ... γ	22	.....	–	–	–	–
83	61	Poddington 5p	77m	.....	–	–	–	–
118	65	Ramsden's (Harry) ... γ	70	+5	L4.5	1.1	8.6	13.8
60	27	Rentamaster 5p ... γ	27	.....	‡al.85	2.8	‡	5.3
38	7	Sempernova ... γ	8	–1	–	–	–	1.8
38	17	Sleepy Kids 5p ... γ	17	.....	–	–	–	–
3½	1¼	Systems Connections ... γ	2	.....	–	–	–	–
94	45	Tomorrows Leisure 20p ... γ	48	.....	1.0	♦	2.8	♦
55	27	UPL Group 10p ... γ	32	+3	–	–	–	–
89	16	Video Magic Leis. 1p ... γ	20	–1	–	–	–	–
6¼	2¼	Vista Ents 5p ... γ	2½	.....	–	–	–	–
5½	1¼	Wilton Group 1p ... γ	1¼	.....	–	–	–	5.9

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on *profit after taxation and unrelieved ACT where applicable*; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm –) to the current pre-closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- ● "Tap Stock"
- * Highs and lows marked thus have been adjusted to allow for rights issues for cash
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♦ Figures or report awaited
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♠ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Not officially listed.
- \# Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue; cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♦ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E usually provided.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend. P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1990-91. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1990. L Estimated annualised dividend, cover and P/E based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1989-90. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date. Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Craig & Rose £1 ... γ	708	.....
Finlay Pkg. 5p ... γ	40	.....
Holt (Jos) 25p ... γ	1305	.....

IRISH

Cap. 8½% Ln. 1991	£98½	.....
9pc Cap Ln. 1996	£94	–¼
Fin. 13% 97/02	£110¼	.....
Arnotts	170	–10
Carrol (P.J.) ... α	152	.....
Hall (R. & H.)	165	.....
Heiton Hldgs ... γ	52	.....
IRG	153½	.....
United Drug	148	.....

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	48
Amstrad	6
Astec (BSR)	4½
BAT	45
BOC Grp	39
BTR	29
Barclays	27
Blue Circle	17
Boots	21
Bowaters	41
Brit Aerospace	43
British Steel	13
Brit. Telecom	22
Cadburys	26
Charter Cons	37
Comm Union	37
Courtaulds	25
Eurotunnel	40
FKI	5¼
FNFC	20
Gen Accident	37
GEC	14
Glaxo	57
Grand Met	44
Guardian	15
GKN	27
Hanson	16
Hawker Sidd	39
ICI	70
Ladbroke	22
Legal & Gen	29½
Lex Service	28
Lloyds Bank	21
Lucas Inds	11
Marks & Spencer	18
Midland Bk	20
Nat West Bk	18
P & O Dfd	42
Polly Peck	40
Racal Elect	14
RHM	23
Rank Org Ord	49
Reed Intnl	30
STC	19½
Sears	8½
SmKl. Beecham A	44
TI	37
TSB	10
Tesco	19
Thorn EMI	49
Trust Houses	21
T&N	14
Unilever	58
Vickers	19
Wellcome	38

Property	
Brit Land	24
Control Secs	3½
Land Securities	42
MEPC	38
Mountleigh	11

Oils	
Aviva Petlm	3½
Brit Petroleum	28
Burmah Castrol	44
Conroy Petlm	20
Gaelic Res	2
Premier	8½
Shell	40
Tuskar Res	6
Ultramar	31

Mines	
Lonrho	21
RTZ	40

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AUTHORISED UNIT TRUSTS

Medical Investments Ltd (1100)F
1 White Hart Yard, London SE1 1NX 071-407 5966

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Health Fund	5¼	43.32	43.31	47.38	-1.92	.35

Mercury Fund Managers Ltd (1000)H
33 King William St, EC4R 9AS 071-280 2060

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
American Growth	5	104.1	104.1	111.1	+2.10	0.61
(Accum Units)	5	110.9	110.9	118.3	+2.00	0.61
American Income	5	30.29	30.29xd	32.31	+0.42	9.27
(Accum Units)	5	40.44	40.44xd	43.14	+0.56	9.27
American Sm Cos	5	38.32	38.32xd	40.88	+0.53	0.00
(Accum Units)	5	38.84	38.84xd	41.43	+0.53	0.00
British Blue Chip	5	50.95	51.12xd	54.53	+0.17	3.26
(Accum Units)	5	56.13	56.33xd	60.09	+0.19	3.26
Cash ♦	0	101.1	101.2xd	101.2	+0.10	14.20
(Accum Units) ♦	0	106.5	106.6xd	106.6	+0.10	14.20
European Growth	5	152.7	152.7	162.3	+1.30	0.64
(Accum Units)	5	162.1	162.1	172.3	+1.30	0.64
European Income	5	64.85	64.85	68.90	+0.56	4.72
(Accum Units)	5	75.63	75.63	80.35	+0.64	4.72
General	5	320.9	324.0xd	345.6	+0.90	2.86
(Accum Units)	5	570.6	576.2xd	614.6	+1.70	2.86
Gilt	5	81.11	81.11	85.27	+0.09	9.40
(Accum Units)	5	120.7	120.7	126.9	+0.10	9.40
High Income	5	43.88	44.13xd	47.08	+0.17	6.72
(Accum Units)	5	51.70	52.00xd	55.47	+0.20	6.72
High Interest	5	41.16	41.16xd	43.36	+0.01	11.10
(Accum Units)	5	53.46	53.46xd	56.32	+0.01	11.10

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Smaller Co's	5¼	25.57	25.57	27.49	+0.11	1.60
(Accum Units)	5¼	28.23	28.23	30.35	+0.13	1.60
Special Sits	5¼	22.31	22.31xd	23.98	+0.08	1.08
(Accum Units)	5¼	24.30	24.30	26.12	+0.09	1.08
Tokyo ♥	5¼	68.56	68.56	73.13	+1.93	0.00
(Accum Units) ♥	5¼	69.25	69.25	73.86	+1.94	0.00
UK Equity	5¼	115.9	115.9xd	123.6	+0.10	4.94
(Accum Units)	5¼	199.9	199.9	213.2	+0.20	4.94
US Smaller Cos ♥	5¼	37.07	37.07	39.64	+0.51	0.00

National Provident Inv Mgrs Ltd (1400)H
48 Gracechurch St, EC3P 3HH 071-623 4200

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
NPI American Acc ♥	5	55.90	56.02	59.59	+1.05	1.80
NPI American Dist ♥	5	52.59	52.70	56.06	+1.0	1.80
NPI European Acc	5	65.17	65.67	69.86	-0.09	0.89
NPI European Dist	5	64.17	64.66	68.79	-0.09	0.89
NPI Far East Acc ♥	5	99.73	100.03	106.42	+2.14	0.43
NPI Far East Dist ♥	5	99.02	99.32	105.66	+2.13	0.43
NPI O'seas Acc	5	756.2	760.9	809.5	+9.3	1.45
NPI O'seas Dist	5	592.0	595.8xd	633.8	+7.3	1.45
NPI UK Acc	5	412.0	416.0	442.6	+0.1	5.16
NPI UK Dist	5	232.8	235.0	250.0	...	5.16
NPI W'wide Acc	5	62.01	63.06	67.08	+0.91	0.67
NPI W'wide Dist	5	59.65	60.65xd	64.52	+0.88	0.67

Newton Fund Mngrs Ltd (1200)F
2, London Bridge, SE1 071-407 4404

	Init Chrg	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Newton Income	6	125.9	128.8xd	137.0	+0.2	7.18
Newton Global	6	191.0	195.1xd	207.5	+2.3	3.59
Newton General	6	91.00	93.43xd	99.39	+0.13	4.70

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often well above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♦) - 1401 to 1700 hours; (♠) - 1701 to midnight. Daily dealing prices are set on the basis of the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation,
Centre Point,
103 New Oxford Street, London WC1A 1QH
Tel: 071 – 379 – 0444.

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National Provident Institution
48 Gracechurch St, London EC3P 3HH 071-623 4200

	Bid Price	Offer Price	+ or -	Yield Gross
Managed	303.3	319.3	+0.31	–
UK Equity	381.9	402.1	+0.02	–
Overseas Eq	289.8	305.1	+1.06	–
American	208.2	219.2	+1.81	–
Far East	319.3	336.2	+1.85	–
Property	191.0	201.1	+0.1	–
Fixed Int	229.6	241.9	-0.2	–
Indexed Gilt	143.2	150.8	+0.1	–
Deposit	171.2	180.3	+0.2	–
Pension Fund (Accum Units)				
Managed	419.7	441.8	+0.3	–
UK Equity	485.0	511.6	+0.08	–
Overseas Eq	479.4	504.7	+0.96	–
American	274.8	289.3	+1.23	–
Far East	530.2	558.2	+1.86	–
Property	237.0	249.5	......	–
Fixed Int	279.0	293.7	-0.3	–
Indexed Gilt	157.4	165.67	+0.1	–
Deposit	235.1	247.5	+0.3	–
NPI Pensions Management Ltd				
Managed Fund	908.9	925.1	......	–

Prices Oct 3 Next dealing Nov 1

Norwich Union Asset Management Ltd
PO Box 140, Norwich NR3 1PP 0603 686787

	Bid Price	Offer Price	+ or -	Yield Gross
NUAM Funds				
Managed Fund	61.1	64.3	+0.2	–
Stock Market Mngd Fund	57.6	60.6	+0.3	–
Equity Fund	65.5	69.0	+0.1	–
International Fund	50.6	53.3	+0.5	–
European Fund	61.5	64.8	......	–
North American Fund	47.3	49.8	+0.7	–
Pacific Fund	52.9	55.7	+1.2	–

[illegible]

Providence Capital Life Assc. Co Ltd – Contd.

	Bid Price	Offer Price	+ or -	Yield Gross
Total Investment Bond				
UK Equity Initial		129.9	-0.5	–
UK Fixed Int Initial		106.4	-0.1	–
Intl Equities Initial		103.6	+1.8	–
UK Managed Initial		105.1	+0.1	–
Property Initial		164.3	......	–
Money Initial		83.9	+0.1	–
Special Market Initial		96.8	+1.0	–
Japan Equity Initial		79.9	+2.4	–
North American Initial		62.2	+1.3	–
Pacific Initial		61.8	+1.9	–
Technology Initial		79.6	-0.2	–
Nat Resources Initial		43.7	+0.9	–
European Initial		84.2	+0.4	–
Residential Prop Init		93.9	......	–
Swiss Equities Initial		31.1	+0.1	–
Hong Kong Initial		43.9	+0.4	–
UK High Inc Eq Init		58.7	-0.2	–
Int Fixed Interest Init		49.2	+0.2	–
Int Managed Init		49.5	+0.5	–
HIP Managed Init		99.2	+0.5	–
HIP Managed F Initial		85.2	+0.5	–
Broker Funds				
High Performance	61.0	64.3	+0.5	–
Towerhill Mngd Fd Acc	35.4	37.3	-0.8	–
YRA Executive Fd	85.0	89.6	+1.4	–
£ Global Growth Acc	111.5	117.6	+2.0	–
£ High Income Money Acc	132.0	139.2	+0.1	–
IM Balanced		46.7	+0.5	–
H F. Speculator Fd		113.9	+0.4	–
PEP Acorn II		103.1	-0.2	–
PEP Cautionary		66.9	......	–
AAFS Int Man Fund		108.6	+0.4	–
		77.6	+0.4	–

[illegible]

Royal Heritage Life Assurance Ltd – Contd.

[illegible]

OFFSHORE INSURANCES

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

[illegible]

CANADA (SIB RECOGNISED)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

GUERNSEY (REGULATED)

[illegible]

FT MANAGED FUNDS SERVICE

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	Bid Price	Offer Price	+ or -	Yield Gross
Baring Int Fund Managers Guernsey Ltd				
Mngd Portfolio (DIrs)	$9.71	10.31	+0.23	-
Mngd Portfolio (Stlg)	£3.64	3.91	+0.07	-
Baring Currency Fund Ltd				
US Dollar		$14.50	----	-
Sterling		£17.62	----	-
Deutschemark		DM37.86	+0.02	-
Japanese Yen		Y3,785	+1	-
Managed	$42.17	44.27	+0.12	-
Dantrust Management (Guernsey) Ltd				
Dantrust Limited	DK115.40	115.60	----	-
Fipart-Conseil Fund Mngrs (Guernsey) Ltd				
Hausseille G & B Fd	SFr7.81	7.87	+0.02	1.98
John Govett Mngmnt International Ltd				
Govett High Inc Gilt	$0.3460	0.3677	-0.0001	13.35
Govett Far East Inc	$0.909	0.972	+0.020	-
Energy & Resources	$0.675	0.721	+0.009	-
Hambros Fund Managers (CI) Ltd				
Japanese OTC	$8.9058	9.5511	----	-
Hamlet Throgmorton Mngmt Ltd				
Intl Inv-Stlg High Inc	£9.906	10.492	----	10.09
Intl Inv-Intl High Inc	$49.685	51.253	----	5.54
Henderson Admin. (Guernsey)				
Prime Inc Portfolio	£0.988	-	----	-
Balanced Gwth $ Prtflo	$1.812	1.953	+0.008	-
Balanced Gwth £ Prtflo	£1.043	1.121	+0.031	-
Select Mkts $ Prtflo	$1.826	1.979	+0.017	-
Inc & Gwth $ Prtflo	$1.663	1.767	+0.010	-
High Income £ Prtflo	£0.591	0.626	+0.001	-
Hill Samuel Fd. Mngrs. (Guernsey) Ltd				
Guernsey Tst	65.40	69.94	+0.14	2.77
Kleinwort Benson Intl Fd Mngrs Ltd				
KB Int Ac Bd Acc	£8.568	9.050	----	-

	Bid Price	Offer Price	+ or -	Yield Gross
Sarasin (Isle of Man) Ltd				
Fergus Fd Oct 19		£11.82	----	-
UK Trust Oct 19		£8.41	----	-
Target International (Isle of Man) Ltd				
URC Offshore Fd	7.75	8.38	----	-
Fleet Street Inv Fd	67.04	7.49	----	-
Offshore Intlnvr Fd Ltd	8.82	9.28	----	-
Hellen Mines W/W S/S	3.88	4.37	----	-
Tattersall Intl Assets	6.32	6.52	----	-
Tyndall International (Isle of Man) Ltd				
R.I. Gilt/Bulldog	99.7	-	----	-
(Accum Shares)	158.9	166.9	+0.6	-
Unibank Scandinavian Fund Ltd				
Scandinavia Fd	165.48	176.10	----	1.0

JERSEY (SIB RECOGNISED)

	Init Charge	Canc. Price	Bid Price	Offer Price	+ or -	Yield Gr's
Barclays International Funds						
PO Box 152, St Helier, Jersey CI 0534 67060						
Australian Eq (Inc)	5¼	0.750	0.750	0.806	+0.01	2.5
Global Income (Inc)	5¼	0.399	0.399	0.431	+0.01	4.6
Global Resources R	5¼	0.336	0.336	0.365	-0.01	1.3
Currency Fund						
Stlg Premium Income R			£10.21	10.22d	+0.01	13.5
Capital House Fund Mgrs (CI) Ltd (0900)H						
PO Box 189, Capital Hse, Bath St, St. Helier, Jersey						
Tel: 0534 74689 (Dealing) 0534 75439 (Helpline)						
Facsimile: 0534 79040 Telex 4192136						
Capital House International Growth Funds Ltd						
Equities						
UK Equity	5	£1.062	1.076	1.142	+0.01	-
North American	5	$1.368	1.402	1.488	+0.01	-
Japanese	5	$1.599	1.608	1.707	+0.01	-
Pacific Basin	5	$2.157	2.157	2.289	+0.03	-
Continental European	5	$2.410	2.441	2.591	+0.01	-
Gold	5	$1.228	1.253	1.328	+0.01	-

LUXEMBOURG (REGULATED)

SWITZERLAND (SIB RECOGNISED)

OTHER OFFSHORE FUNDS

JERSEY (REGULATED)

IRELAND (SIB RECOGNISED)

ISLE OF MAN (SIB RECOGNISED)

LUXEMBOURG (SIB RECOGNISED)

ISLE OF MAN (REGULATED)

MANAGED FUNDS NOTES

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar and sterling rally

THE DOLLAR was firmer on the foreign exchanges yesterday while sterling improved from a shaky start after better than expected UK trade figures. The US currency was supported by short-covering after its recent fall to a record low against the D-Mark and the lowest for nearly 2 years in terms of the Japanese yen.

Lack of fresh economic news helped at a time when technical factors were boosting the dollar. Its index rose to 60.4 from 60.2. The dollar broke through resistance at DM1.5150 and closed in London at DM1.5160 compared with DM1.5025 on Friday. It also improved to FFr5.0750 from FFr5.0350 and to SFr1.2805 from SFr1.2695.

Continuing discussions about the US budget deficit had little impact on trading, but a sharp fall in oil prices gave support to the Japanese yen. The dollar rose slightly to Y126.00 from Y125.90 at the London close, but the D-Mark fell to Y83.10 from Y83.80.

Sterling opened weaker and then rallied after the September UK trade news proved much better than expected. The current account deficit of £845m was a considerable improvement on the August shortfall of a revised £1.199bn and was also well short of market estimates of around £1.3bn.

Lower imports, coupled with higher exports and rising revenue from North Sea oil, led to the improvement. It was the best figure since April 1987, encouraging hopes that the current account deficit for this year will show a narrowing from the 1989 figure of £19bn.

There was some optimism in London yesterday that the figure for the full year could be as low as £16.5bn, but that the Treasury's £15bn target is unlikely to be met. In the third quarter the trade gap - including invisible items - fell to £3.8bn, from £6.2bn in the same quarter of last year. The deficit for the first nine months of 1990 was £13.57bn.

The pound had fallen to a low of DM2.9325, before the release of the trade figures, but it rallied to finish around the highest level of the day at DM2.9550 compared with DM2.9450 on Friday. Sterling also rose to FFr9.8900 from FFr9.8650 and to SFr2.4950 from SFr2.4875; it fell to Y245.50 from Y246.75 against the firm yen. The pound also lost 1.05 cents to $1.9490, while its index eased 0.1 to 94.4.

Figures released by the European Commission showed sterling only slightly above the bottom of the European Monetary System exchange rate mechanism. The lira was the weakest member, with the pound 0.03 per cent higher. A fall in short-term Italian rates had an unsettling impact on the lira, but it improved slightly against the D-Mark at the Milan fixing. The D-Mark was set at L749.12 against L749.49 on Friday.

The French franc had a firm tone ahead of today's French trade data for September. The D-Mark fell to FFr3.3485 from FFr3.3502 at the Paris fixing.

£ IN NEW YORK

Oct.22	Close	Previous Close
£ Spot	1.9420-1.9430	1.9590-1.9600
1 month	1.02-1.00pm	0.97-0.95pm
3 months	2.68-2.65pm	2.69-2.66pm
12 months	8.53-8.43pm	8.54-8.44pm

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Oct.22	Previous
8.30 am	[illegible]	[illegible]
9.00 am	[illegible]	[illegible]
10.00 am	[illegible]	[illegible]
11.00 am	[illegible]	[illegible]
Noon	[illegible]	[illegible]
1.00 pm	[illegible]	[illegible]
2.00 pm	[illegible]	[illegible]
3.00 pm	[illegible]	[illegible]
4.00 pm	[illegible]	[illegible]

CURRENCY MOVEMENTS

Oct.22	Bank of England Index	Morgan Guaranty Changes %
Sterling	94.4	-17.9
U.S.Dollar	60.4	[illegible]
Canadian Dollar	[illegible]	[illegible]
Austrian Schilling	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]
Danish Kroner	[illegible]	[illegible]
Deutsche Mark	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]
Guilder	[illegible]	[illegible]
French Franc	[illegible]	[illegible]
Lira	[illegible]	[illegible]
Yen	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100). *Rates are for Oct.19

CURRENCY RATES

Oct 22	Bank rate %	Special* Drawing Rights	European† Currency Unit
Sterling	[illegible]	[illegible]	[illegible]
U.S. Dollar	[illegible]	[illegible]	[illegible]
Canadian $	[illegible]	[illegible]	[illegible]
Austrian Sch	[illegible]	[illegible]	[illegible]
Belgian Franc	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]
Deutsche Mark	6.00	2.16995	2.05951
Neth.Guilder	7.00	2.44999	2.32142
French Franc	10¼	7.28436	6.89642
Italian Lira	12½	1627.07	1542.93
Japanese Yen	6	179.243	172.103
Norway Krone	8	8.44591	7.99920
Spanish Peseta	–	136.432	129.385
Swedish Krona	11	8.07171	7.64366
Swiss Franc	6.00	1.83064	1.73850
Greek Drach	20½	N/A	207.534
Irish Punt	–	N/A	0.768176

† European Commission Calculations.
* All SDR rates are for Oct.19

OTHER CURRENCIES

Oct 22	£	$
Argentina	10637.2 - 10659.4	5455.00 - 5465.00
Australia	2.5000 - 2.5020	1.2795 - 1.2805
Brazil	190.710 - 192.124	97.80 - 98.50
Finland	6.9800 - 6.9935	3.5740 - 3.5770
Greece	293.55 - 298.25	150.55 - 152.95
Hong Kong	15.2020 - 15.2160	7.7820 - 7.7840
Iran	125.00*	64.10*
Korea(Sth)	1388.95 - 1411.35	713.20 - 718.80
Kuwait	N/A	N/A
Luxembourg	60.65 - 60.75	31.10 - 31.20
Malaysia	5.2636 - 5.2760	2.6955 - 2.6975
Mexico	5684.25 - 5706.70	2915.00 - 2925.00
N.Zealand	3.2155 - 3.2205	1.6455 - 1.6485
Saudi Ar	7.2955 - 7.3295	3.7490 - 3.7510
Singapore	3.3295 - 3.3375	1.7060 - 1.7080
S.Af (Cm)	4.9560 - 4.9615	2.5365 - 2.5380
S.Af (Fn)	7.2340 - 7.3710	3.7035 - 3.7735
Taiwan	53.25 - 53.35	27.25 - 27.30
U.A.E.	7.1440 - 7.1790	3.6710 - 3.6740

* Selling rate

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Oct 22	% change from central rate	% spread vs weakest narrow band currency	Divergence indicator
Spanish Peseta	133.631	129.385	-3.18	3.60	56
Belgian Franc	42.4032	42.4015	0.00	0.31	4
French Franc	6.89509	6.89642	0.02	0.29	3
Irish Punt	0.767417	0.768176	0.10	0.21	-1
German D-Mark	2.05586	2.05951	0.18	0.13	-7
Danish Krone	7.84195	7.85794	0.20	0.10	-6
Dutch Guilder	2.31643	2.32142	0.22	0.09	-7
Sterling	0.696904	0.698831	0.28	0.03	-5
Italian Lira	1538.24	1542.93	0.30	0.00	-12

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

Oct 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.9455 - 1.9585	1.9485 - 1.9495	1.02-1.00cpm	6.22	2.69-2.66pm	5.49
Canada	2.2805 - 2.2950	2.2835 - 2.2845	0.37-0.28cpm	1.71	0.83-0.66pm	1.30
Netherlands	3.31 - 3.33½	3.32½ - 3.33½	1¾-1⅝cpm	6.08	4¾-4½pm	5.18
Belgium	60.35 - 60.85	60.65 - 60.75	30-25cpm	5.44	78-69pm	4.84
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. Six-month forward dollar 5.00-4.95cpm. 12 Month 8.55-8.45cpm

DOLLAR SPOT - FORWARD AGAINST THE DOLLAR

Oct 22	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.9455 - 1.9585	1.9485 - 1.9495	1.02-1.00cpm	6.22	2.69-2.66pm	5.49
Ireland†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ecu†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Commercial rates taken towards the end of London trading. † UK, Ireland and ECU are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency.

EURO-CURRENCY INTEREST RATES

Oct 22	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	8 - 7¾	8⅛ - 8	8⅛ - 8	8³⁄₁₆ - 8¹⁄₁₆	8¼ - 8⅛	8⁵⁄₁₆ - 8³⁄₁₆
Can. Dollar	12½ - 12¼	12⅜ - 12¼	12⅜ - 12¼	12⁷⁄₁₆ - 12⁵⁄₁₆	12⅛ - 12	12 - 11⅞
D. Guilder	7⅞ - 7¾	8 - 7⅞	8⅛ - 8	8¼ - 8⅛	8⅜ - 8¼	8⅜ - 8¼
Sw. Franc	7⅞ - 7¾	7⅞ - 7¾	7⅞ - 7¾	8⅛ - 8	8¼ - 8⅛	8⅜ - 8¼
Deutschmark	8⅛ - 8	8¼ - 8⅛	8⅜ - 8¼	8⅝ - 8½	8¹³⁄₁₆ - 8¹¹⁄₁₆	9 - 8⅞
Fr. Franc	9¾ - 9⅝	9¾ - 9⅝	9¾ - 9⅝	9⅞ - 9¾	10⅛ - 9⅞	10⅛ - 10⅛
Italian Lira	13 - 11	11 - 10	11⅛ - 10⅝	11¼ - 10⅝	11⅛ - 11	11⅞ - 11⅝
Belgian Franc	9⅛ - 9	9 - 8⅞	9 - 8⅞	9 - 8⅞	9 - 8⅞	9⅛ - 9
Yen	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 7⅞	8⅛ - 8⅛	8⅜ - 8¼	8⅝ - 8⅜
D.Krone	9¾ - 9½	9¾ - 9½	10¼ - 10⅛	10½ - 10⅜	10¾ - 10⅝	10¾ - 10⅝
Asian $Sing.	8¼ - 8⅛	8¼ - 8⅛	8⅜ - 8¼	8⅜ - 8¼	8⅜ - 8¼	8½ - 8⅜

Long term Eurodollars: two years 8⅛-8 per cent; three years 8⁵⁄₁₆-8³⁄₁₆ per cent; four years 8⁷⁄₁₆-8⁵⁄₁₆ per cent; five years 8⁹⁄₁₆-8⁷⁄₁₆ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Oct 22	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.949	2.955	245.5	9.890	2.495	3.330	2212	2.284	60.70
$	0.513	1	1.516	126.0	5.074	1.280	1.709	1135	1.172	31.14
DM	0.338	0.660	1	83.08	3.347	0.844	1.127	748.6	0.773	20.54
YEN	4.073	7.939	12.04	1000.	40.29	10.16	13.56	9010	9.303	247.3
F Fr.	1.011	1.971	2.988	248.2	10.	2.523	3.367	2237	2.309	61.38
S Fr.	0.401	0.781	1.184	98.40	3.964	1	1.335	886.6	0.915	24.33
H Fl.	0.300	0.585	0.887	73.72	2.970	0.749	1	664.3	0.686	18.23
Lira	0.452	0.881	1.336	111.0	4.471	1.128	1.505	1000.	1.033	27.44
C $	0.438	0.853	1.294	107.5	4.330	1.092	1.458	968.5	1	26.58
B Fr.	1.647	3.211	4.868	404.4	16.29	4.110	5.486	3644	3.763	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

FINANCIAL FUTURES AND OPTIONS

LIFFE LONG GILT FUTURES OPTIONS £50,000 64ths of 100%

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
81	[illegible]	[illegible]	[illegible]	[illegible]
82	[illegible]	[illegible]	[illegible]	[illegible]
83	[illegible]	[illegible]	[illegible]	[illegible]
84	[illegible]	[illegible]	[illegible]	[illegible]
85	[illegible]	[illegible]	[illegible]	[illegible]
86	[illegible]	[illegible]	[illegible]	[illegible]
87	[illegible]	[illegible]	[illegible]	[illegible]
88	[illegible]	[illegible]	[illegible]	[illegible]

LIFFE EUROMARK OPTIONS DM1m points of 100%

Strike Price	Calls-settlements Dec	Calls-settlements Mar	Puts-settlements Dec	Puts-settlements Mar
9050	[illegible]	[illegible]	[illegible]	[illegible]
9075	[illegible]	[illegible]	[illegible]	[illegible]
9100	[illegible]	[illegible]	[illegible]	[illegible]
9125	[illegible]	[illegible]	[illegible]	[illegible]
9150	[illegible]	[illegible]	[illegible]	[illegible]
9175	[illegible]	[illegible]	[illegible]	[illegible]
9200	[illegible]	[illegible]	[illegible]	[illegible]
9225	[illegible]	[illegible]	[illegible]	[illegible]

LONDON (LIFFE)

LIFFE BUND FUTURES OPTIONS; LIFFE SHORT STERLING OPTIONS; LIFFE US TREASURY BOND FUTURES OPTIONS; LIFFE EURODOLLAR OPTIONS; 20-YEAR 9% NOTIONAL GILT; US TREASURY BONDS 8%; 6% NOTIONAL GERMAN GOVT. BOND; 6% NOTIONAL LONG TERM JAPANESE GOVT. BOND; THREE MONTH STERLING; THREE MONTH EURODOLLAR; THREE MONTH ECU; FT-SE 100 INDEX

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; U.S. TREASURY BILLS (IMM); SWISS FRANC (IMM); JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); THREE-MONTH EURODOLLAR (IMM); STANDARD & POORS 500 INDEX; PHILADELPHIA SE £/$ OPTIONS; 10 YEAR 10% NOTIONAL FRENCH BOND (MATIF) FUTURES; OPTION ON LONG-TERM FRENCH BOND (MATIF); THREE-MONTH PIBOR FUTURES (MATIF); CAC-40 FUTURES (MATIF) Stock Index

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

POUND-$ (FOREIGN EXCHANGE)

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.9490	1.9389	1.9223	1.8993	1.8640

IMM-STERLING $s per £

	Close	High	Low	Prev.
Dec	1.9264	1.9394	1.9256	1.9402
Mar	1.9014	1.9120	1.9004	1.9152
Jun	1.8808	-	1.8830	1.8946

BASE LENDING RATES

	%		%		%
ABN Bank	14	Coutts & Co	14	NatWestminster	14
Adam & Company	14	Cyprus Popular Bk	14	Northern Bank Ltd	14
Allied Trust Bank	14	Dunbar Bank PLC	14	Nykredit Mortgage Bank	14½
AIB Bank	14	Duncan Lawrie	14	Provincial Bank PLC	15
● Henry Ansbacher	14	Equatorial Bank plc	14	Roxburghe Guarantee	15½
Associates Cap Corp	15½	Exeter Trust Ltd	14½	Royal Bk of Scotland	14
● B & C Merchant Bank	14	Financial & Gen. Bank	14	Royal Trust Bank	14
Bank of Baroda	14	First National Bank Plc	16½	● Smith & Williamson Secs.	14
Banco Bilbao Vizcaya	14	● Robert Fleming & Co	14	Standard Chartered	14
Bank Credit & Comm.	14	Robert Fraser & Ptnrs	14½	TSB	14
Bank of Cyprus	14	Girobank	14	● United Bk of Kuwait	14
Bank of India	14	● Guinness Mahon	14	United Mizrahi Bank	14
Bank of Ireland	14	HFC Bank plc	14	Unity Trust Bank Plc	14
Bank of Scotland	14	● Hambros Bank	14	Western Trust	14
Banque Belge Ltd	14	Hampshire Trust Plc	15½	Westpac Bank Corp	14
Barclays Bank	14	Heritable & Gen Inv Bank	14	Whiteaway Laidlaw	14
Beneficial Trust Ltd	15	● Hill Samuel	14	Yorkshire Bank	14
Brit Bk of Mid East	14	C. Hoare & Co	14		
● Brown Shipley	14	Hongkong & Shanghai	14		
CL Bank Nederland	14	● Leopold Joseph & Sons	14		
● Charterhouse Bank	14	Lloyds Bank	14		
Citibank NA	14	Meghraj Bank Ltd	14		
City Merchants Bank	14	Midland Bank	14		
Clydesdale Bank	14	Mount Banking	14		
Comm.Bk of London Plc	14	Nat Bk of Kuwait	14		
Co-operative Bank	*14				

● Members of British Merchant Banking & Securities Houses Association. * Deposit rate 5.1% Sovereign 7.7%. Top Tier-£50,000+ instant access 13.7% & Mortgage base rate.

MONEY MARKETS

Better on trade data

THERE WAS an easing of longer term interest rates in London yesterday after better than expected UK trade figures for September.

A narrowing of the trade deficit pulled 12-month sterling interbank down to 13⅜-13¼ per cent from 13¾-13⅝, but the data did not encourage any hopes of an early cut in bank base rates and the important three-month rate had a slightly firmer tone at 13⅞-13¾ per cent against 13⅞-13¾.

Short sterling futures improved on the trade figures. December delivery opened lower at 86.50 on fears of a large deficit, but touched a peak of 86.63 on the lower than feared trade gap, before closing at 86.57 compared with 86.52 previously.

Day-to-day credit was in fairly short supply on the London money market. The Bank of England initially forecast a shortage of £750m, but revised this to £650m in the afternoon.

Total help of £550m was provided. Before lunch the authorities bought £339m bills outright, by way of £31m bank bills in band 1 at 13¾ per cent; £25m Treasury bills in band 2 at 13¾ per cent; and £283m bank bills in band 2 at 13¾ per cent.

In the afternoon another £126m bills were purchased, via £36m bank bills in band 1 at 13¾ per cent and £90m bank bills in band 2 at 13¾ per cent. Late assistance of around £85m was also provided.

Bills maturing in official hands, repayment of late assistance and a take-up of Treasury bills drained £1,009m, with exchequer transactions absorbing £240m and bank balances below target £70m. These outweighed a fall in the note circulation adding £545m to liquidity.

In Frankfurt call money rose to 8.05 from 8.025 per cent as tax payments drained funds from the money market. This drain on liquidity led to a fall in banks reserve holdings at the Bundesbank to DM63bn from DM66bn last Thursday. The tightening of conditions has also caused banks to increase their borrowings, under the Lombard emergency facility, to DM9.1bn on Friday from DM4.7bn on Thursday.

In Amsterdam the Dutch Central Bank left the interest rate on special deposits unchanged at 8.0 per cent when offering three-day funds to the money market. The new pact on special deposits will replace an expiring eight-day facility worth Fl 5.0bn.

UK clearing bank base lending rate 14 per cent from October 8, 1990

FT LONDON INTERBANK FIXING

(11.00 a.m. Oct.22) 3 months US dollars		6 months US Dollars	
bid 8⅛	offer 8¼	bid 8⁵⁄₁₆	offer 8⁷⁄₁₆

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque National de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

4pm

Prime rate	10	One month	7.50	Three year	7.98
Broker loan rate	9⅛	Two month	7.59	Four year	8.15
Fed.funds	7⅞	Three month	7.47	Five year	8.24
Fed.funds at intervention	-	Six month	7.56	Seven year	8.49
		One year	7.53	10-year	8.62
		Two year	7.86	30-year	8.75

Oct.22	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	8.00-8.10	8.15-8.25	8.20-8.35	8.45-8.60	8.60-8.75	8.00
Paris	9⅜-9½	9⅝-9¾	9⅞-9¹⁵⁄₁₆	9⅞-9⅞	10-10⅛	9.50
Zurich	6¾-7¼	7½-7¾	-	7¾-8¼	-	-
Amsterdam	7.50-7.61	8.06-8.16	-	8.40-8.48	-	-
Tokyo	7⅞-7⅞	7⅞-7⅞	-	8⅛-8¼	-	-
Milan	9¾-10⅛	11-11⅛	-	11⅛-11¼	-	-
Brussels	9.50	8⅞-8⅞	-	8⅞-8⅞	-	-
Dublin	9⅜-9½	10-10¼	10⅛-10¼	10⅜-10⅜	10¼-10⅜	-

LONDON MONEY RATES

Oct 22	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	14	14⅛	14	13⅞	13⅝	13¼
Interbank Bid	13½	13⅞	13⅞	13¾	13½	13
Sterling CDs	-	-	13¹³⁄₁₆	13¾	13⅝	13⅜
Local Authority Deps.	13⅞	13⅞	13⅞	13¾	13⅝	13¼
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps.	13⅞	13¾	13⅞	13½	-	-
Company Deposits	-	-	14⅛	13⅞	13⅝	13¼
Finance House Deposits	-	-	13⅞	13¾	13⅝	13⅜
Treasury Bills (Buy)	-	-	13⅞	13¾	-	-
Bank Bills (Buy)	-	-	13⅞	13⅞	12⅞	-
Fine Trade Bills (Buy)	-	-	14⅛	13⅞	13⅞	-
Dollar CDs	-	-	8.12	8.12	8.12	8.17
SDR Linked Dep. Offer	-	-	9⅛	9¼	9⅜	9⅜
SDR Linked Dep. Bid	-	-	9	9⅛	9¼	9¼
ECU Linked Dep. Offer	-	-	9⅞	9⅞	10	9⅞
ECU Linked Dep. Bid	-	-	9¾	9¾	9⅞	10

Treasury Bills (sell); one-month 13⅝ per cent; three months 13¹¹⁄₁₆ per cent; six months 12¾ per cent; Bank Bills (sell): one-month 13¹¹⁄₁₆ per cent; three months 13⅞ per cent; Treasury Bills; Average tender rate of discount 13.1897 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day October 8 .1990 . Agreed rates for period Oct 24,1990 to Nov 25 , 1990, Scheme I: 15.78 p.c., Schemes II & III: 16.21 p.c. Reference rate for period Sept 1,1990 to Sept 28 , 1990, Scheme IV&V: 14.955 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 15 from October 1 , 1990. Bank Deposit Rates for sums at seven days notice 4 per cent. Certificates of Tax Deposit (Series 6); Deposit £100,000 and over held under one month 10½ per cent; one-three months 12 per cent; three-six months 12 per cent; six-nine months 12 per cent; nine-twelve months 12 per cent; Under £100,000 11½ per cent from Oct 9,1989 , Deposits withdrawn for cash 5 per cent.

LEGAL NOTICES

NOTICE OF ADMINISTRATION ORDER IN THE MATTER OF THE INSOLVENCY ACT 1986 AND ALPHABET PRODUCTS LIMITED

Registered No. 2184385, Garden Furniture manufacturers, trade Classification 09. Notice is hereby given that under an Administration Order made on the 12th day of October 1990, E. Klempka and M. J. Moore of Cork Gully, Albion Court, 5 Albion Place, Leeds LS1 6JP, were appointed Joint Administrators of the above company.

E. Klempka, M.J.Moore, Joint Administrators.

DOVETAIL SECURITY CENTRES LIMITED

Registered number: 069902. Former company name: DOVETAIL SECURITIES SAFE & LOCK COMPANY LIMITED. Nature of business: LOCKSMITHS & SECURITY CONSULTANTS. Trade classification: 22. Date of appointment of administrative receiver(s): 10 October 1990. Name of person appointing the administrative receiver(s): THE BANK OF SCOTLAND PLC. AUSTIN SCOTT ALLEYNE AND IAN RICHARD BRADBERY, Joint Administrative Receivers (office holder no(s) 001247 and 002822) of 116 New London Road, Chelmsford, Essex. CM2 0QT

MONEY MARKET FUNDS

Money Market Trust Funds

	Gross	Net	CAR	Int Or
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Money Market Bank Accounts

	Gross	Net	CAR	Int Or
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

JOTTER PAD

CROSSWORD

No.7,374 Set by CINEPHILE

ACROSS
1 Study Wagner's operas in project needing heap of magical work (9,5)
10 Student well versed in Russell? (5)
11 One may get different entrance fees (4,5)
12 God has prince as officer (7)
13 Grass required for sea-port (7)
14 Guess of considerable girth (5)
16 Mild monarch losing gold in gallery (9)
19 Weapon outside dress causes profanity (9)
20 More outside? (5)
22 A bad school takes some filling (7)
25 Essential fuel – and is possible (7)
27 Man on council put to death in place of soldiers (9)
28 Come again about dog (5)
29 Tottery devices used to make mystery (9,5)

DOWN
2 Piece for piano or melody in right time (9)
3 Prophecy of bad luck? (5)
4 Aquatic beast without much logic turns up for opera (9)
5 Form of inert chemical (5)
6 Ticker requires peace with enemy, we hear (9)
7 Top off meal between bull and magpie (5)
8 King taking short break in viewer's turning space (7)
9 Strike during sporting contest? Don't say a word (4,3)
15 Old medicines used by father in case of sick corgi (9)
17 Motorway eating place for French sales girl (9)
18 Crafty I am, craftier I may become (9)
19 Two points to give away from land (7)
21 Attraction of a pound when rule is broken (5)
23 A rebellion with little time to check (5)
24 Gordon's foe turns up food for princess (5)
26 Bird to apologise for losing head (5)

Solution to Puzzle No.7,373

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WORLD STOCK MARKETS

CANADA

INDICES

NEW YORK

DOW JONES	Oct. 22	Oct. 19	Oct. 18	Oct. 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
♦Industrials	2516.09	2520.79	2452.72	2387.87	2999.75 (16/7)	2365.10 (11/10)	2999.75 (16/7/90)	41.22 (2/7/32)
Home Bonds	89.17	89.20	89.13	88.74	93.04 (3/1)	88.44 (24/9)	—	—
Transport	883.69	868.16	856.88	821.93	1212.77 (6/6)	821.93 (17/10)	1532.01 (5/9/89)	12.32 (8/7/32)
Utilities	210.89	209.88	208.31	207.49	236.23 (2/1)	190.96 (24/8)	236.23 (2/1/90)	10.50 (8/4/32)

♦Day's High 2535.40 (2536.88) Low 2476.73 (2453.47)

STANDARD AND POOR'S	Oct. 22	Oct. 19	Oct. 18	Oct. 17	1990 HIGH	1990 LOW	Since compilation HIGH	Since compilation LOW
Composite ‡	314.76	312.48	305.74	298.76	368.95 (16/7)	295.46 (11/10)	368.95 (16/7/90)	4.40 (1/6/32)
Industrials	369.89	367.42	358.86	349.98	437.37 (16/7)	346.86 (11/10)	437.37 (16/7/90)	3.62 (21/6/32)
Financial	20.57	20.27	19.83	19.28	31.87 (3/1)	19.24 (11/10)	35.24 (9/10/89)	8.64 (1/10/74)
NYSE Composite	171.52	170.40	167.13	163.59	201.13 (16/7)	162.20 (11/10)	201.13 (16/7/90)	4.46 (25/4/42)
Amex Mkt. Value	292.33	293.71	291.84	289.13	382.45 (5/1)	289.13 (17/10)	397.03 (10/10/89)	29.31 (9/12/72)
NASDAQ Composite	341.12	337.36	334.03	326.78	469.60 (16/7)	325.44 (16/10)	485.73 (9/10/89)	54.87 (31/10/72)

	Oct. 19	Oct. 12	Oct. 5	year ago (approx.)
Dow Industrial Div. Yield	4.03	4.25	4.04	3.83

	Oct. 17	Oct. 10	Oct. 3	year ago (approx.)
S & P Industrial div. yield	3.59	3.56	3.42	3.20
S & P Indl. P/E ratio	14.15	14.28	14.85	13.00

NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Closing price	Change on day
Gen. Electric	2,629,900	53⅞	- 1⅛
Philip Morris	2,290,500	48½	+ ⅜
Fed. Home	2,176,300	33½	+ ⅝
Fannie Mae	2,060,000	29	+ 1⅛
IBM	1,918,300	107¾	+ ⅛
Wal-Mart	1,722,000	29	+ 1⅛
Citicorp	1,688,500	12⅞	+ ⅛
Coca-Cola	1,644,900	45⅛	- ⅝
AT & T	1,550,400	33⅛	- ⅛
Waste Mngmt.	1,548,600	33⅛	+ 1⅛

TRADING ACTIVITY

† Volume Millions	Oct. 22	Oct. 19	Oct. 18
New York	152,650	223,699	205,266
Amex	12,404	12,938	12,375
NASDAQ	(u)	159,114	139,292
Issues Traded	(u)	1,991	1,977
Rises	836	1,128	1,118
Falls	722	485	441
Unchanged	429	378	418
New Highs	(u)	15	12
New Lows	(u)	88	141

CANADA

TORONTO	Oct. 22	Oct. 19	Oct. 18	Oct. 17	1990 HIGH	1990 LOW
Metals & Minerals	2747.52	2717.90	2650.30	2598.61	3453.05 (4/1)	2598.00 (16/10)
Composite	3115.45	3086.64	3060.02	3023.38	4009.47 (3/1)	3009.91 (16/10)
MONTREAL Portfolio	1672.77	1657.86	1642.16	1616.26	2060.90 (3/1)	1607.24 (16/10)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. (c) Closed. (u) Unavailable.

	Oct. 22	Oct. 19	Oct. 18	Oct. 17	1990 HIGH	1990 LOW
THAILAND						
Bangkok SET (30/4/75)	683.33	652.16	649.28	646.99	1143.78 (25/7)	613.95 (25/9)
WORLD						
M.S. Capital Intl. (1/1/70) (S)	476.1*	470.9	464.8	458.8	571.0 (4/1)	423.1 (25/9)

**Saturday October 20: Taiwan Weighted Price: 3085.02 Korea Comp Ex. 710.44
& Subject to official recalculation. *Calculated at 15.00 GMT.
Base values of all indices are 100 except: Brussels SE, ISEQ Overall and DAX—1,000, JSE Gold—255.7, JSE 26 Industrials—264.3 and Australia All Ordinary and Mining—500; (c) Closed. (u) Unavailable.

TOKYO - Most Active Stocks
Monday 22 October 1990

	Stocks Traded	Closing Prices	Change on day		Stocks Traded	Closing Prices	Change on day
Sumitomo Metal	22m	620	+10	Fujita Corp	12.4m	1,550	+100
Nippon Steel	18.4m	488	+3	M'bishi Heavy	11.9m	769	+6
Sato Kogyo	15.3m	1,750	+30	T'io M'ne&Fire	9.6m	1,310	+20
Kobe Steel	15.3m	652	-8	I'jima-Hma	9.2m	785	+2
Kaei ElecR'way	14.9m	1,670	+110	Yasuda FireMne	8m	941	+51

AMEX COMPOSITE PRICES

4pm prices October 22

4pm prices October 22

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
		– A – A – A –								
37½	9½	AAR	.48	4.1	7	406	11⅝	11¼	11⅜	+ ¼
9⅞	7¾	ACM n	1.01	12.		49	8⅜	8	8⅜	+ ⅛
11½	8¾	ACMIn	1.26	13.		464	9⅞	9¾	9⅞	
9⅛	6½	ACM M	n1.01	14.		309	7⅛	7⅛	7⅛	+ ⅛
12⅛	10	ACMMM	1.50	13.		111	11⅝	11½	11⅝	
11⅛	8⅝	ACM Sc	1.36	13.		1389	9⅝	9½	9⅝	
9⅞	7¼	ACMSp	1.01	12.		906	8⅛	7⅞	8⅛	+ ⅛
24⅝	15½	AL Lab	.16	.9	16	540	18⅜	17¾	18⅜	+ ¼
6⅝	1	AM Intl				544	1⅛	1	1	
22¼	5	AM In pf	2	42.		157	5	d 4⅞	4⅞	– ⅛
74⅜	39¼	AMR			14	8455	49⅞	47¾	48½	+ ½
4⅛	2	ARX			7	78	2¼	2⅛	2⅛	
72⅜	38¼	ASA	3a	7.2		827	41⅞	41⅛	41½	– ½
45⅝	31¼	AbtLab	s.84	1.9	21	7258	44⅝	43	44⅝	+1⅝
14	11⅛	Abitibi g	.50			18	11⅜	11¼	11⅜	– ⅛
11⅝	4⅝	AcmeC	.40	7.4	6	34	6⅝	5⅜	6⅜	– ⅛
9⅞	5⅜	AcmeE	.32	5.8	7	18	6⅞	5½	5½	– ⅛

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NYSE COMPOSITE PRICES

Continued from previous Page

12 Month High	Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
10¼	6⅞	PrTAm	.84	12.	86	31	7¼	7¼	7¼	− ⅛
5¼	2	ProsSt	.36	16.		273	2¼	2⅛	2¼	+ ⅛
8¾	7	PruInt	.84	11.		1263	7¾	7⅝	7¾	+ ⅛
1⅛	1-16	PruRIC				61	9-64	3-32	3-32	−1-32
6½	3¼	PruRI	.68e	18.		45	3⅞	3½	3⅝	+ ⅛
27	20	PSvCol	2	8.8	9	229	22¼	21⅞	22⅛	
78¾	72	PSCol pf	7.15	9.7		z50	74	74	74	+1½
24	21½	PSCol pf	2.10	9.3		5	22⅝	22⅝	22⅝	+ ⅛
[illegible]										

12 Month High	Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
[illegible]										
4	1	Zapata				553	1	d ⅞	15-16	−1-16
9½	4⅝	Zemex				66	4⅞	d 4	4½	− ½
14	4	ZenithE				8574	4⅝	4	4½	+ ¼
10⅝	10¼	ZeoNtl	.98	8.6	6	382	10½	10⅛	10¼	− ⅛
8⅞	4½	Zenix	.93	20.		124	4⅝	4⅝	4⅝	
17⅛	9⅞	Zero	.40	3.9	11	200	10½	10⅛	10⅜	+ ⅛
61⅛	29⅝	Zurn	.76	2.3	15	484	33	32	33	+ ⅜
12⅝	10¼	Zweig	1.18e	11.		307	10½	10⅜	10⅜	
16	7⅞	ZweigTI	.84	9.7		1924	8¾	8½	8⅝	+ ⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 percent or more has been paid, the year's high-only range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration.

a-dividend also xtra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls-sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-dividend or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

NASDAQ NATIONAL MARKET

3pm prices October 22

Stock	Div.	Sales 100s	High	Low	Last	Chng
[illegible]						

FINANCIAL TIMES Tuesday October 23 1990

AMERICA

Weekend budget worries lead to morning decline

Wall Street

THE INABILITY of budget negotiators to reach an agreement over the weekend helped push equities broadly lower yesterday morning in spite of a sharp drop in oil prices, *writes Karen Zagor in New York*.

In morning trading, the Dow Jones Industrial Average plunged more than 32 points before recovering somewhat at mid-session. At 1.30 pm, the Dow was 6.43 lower at 2,514.36 on volume of 97.65m shares. On Friday, the Dow was 68.07 higher at 2,520.79.

In spite of the sharp drop in the Dow, the overall tone of the market was mixed. On the big board, advancing issues led those declining by a ratio of four to three. The American Exchange composite was 1.20 lower at 292.51 at 1pm, but the Standard & Poor's 500 improved 0.28 to 312.76.

Oil prices plunged on unconfirmed reports that Iraqi troops had withdrawn from parts of Kuwait. At mid-session, November crude oil dropped $4.29 a barrel to $29.50, exacerbated by the expiration of the November contract.

Federal Home Loan Mortgage (Freddie Mac) added $1⅛ to $33⅝ after losing $8¾ late last week after the company said it would take third quarter charge-offs of $124m against reserves on its multi-family and single-family mortgage portfolios.

General Electric dropped $1⅞ to $54¼. Other financial-service stocks have been hit by the bearish market environment and there are fears that General Electric would not escape a similar fate. However, General Electric said it should post double-digit earnings per share growth in 1990.

Great Lakes Chemical dropped $2¾ to $53½. The company attributed the sell-off to profit-taking in the absence of any major news.

Among equities to post the sharpest gains in morning trading, Gitano Group jumped $1¾ to $13¾. The company said it knew of no reason for the movement.

In the secondary market, the NASDAQ composite rose 2.48 to 339.84 at mid-session, with trading led by technology issues. Conner Peripherals led the most active list, climbing $1⅝ to $21⅝. MCI Communications improved $1⅝ to $29⅛ while Apple Computer slid $⅝ to $31.

Canada

TORONTO stocks remained unchanged in light trading at midday. The composite index rose 1.4 to 3,088.00 on volume of 7.68m shares. Declines led advances by 205 to 166.

Natural resource stocks followed oil prices lower, and gold shares were hit by rumours of bullion sales from the Middle East and Soviet Union. American Barrick shed C$⅝ to C$21⅝ and Placer Dome shed C$⅝ to C$17⅛.

In industrials, Laidlaw rose C$⅛ to C$20⅞, Canadian Pacific C$¼ to C$19 and Thomson Corp C$⅛ to C$14⅞.

In banks, Bank of Nova Scotia was flat at C$11⅛ and Canadian Imperial shed C$⅛ to C$22⅞.

Lower crude prices spark rebound in Japan

By Antonia Sharpe

A SHARP downward correction in the crude oil price and relative stability in the Gulf lifted most stock markets last week. Japan staged the largest advance, of 10 per cent in local currency terms. Excluding Japan, the FT-Actuaries World index rose 2.6 per cent; its inclusion pushed it up 5.1 per cent.

Mr Casper Luard, senior manager at Nomura International, said the combination of the lower oil price, a strong yen and the prospect of reduced interest rates, reflected in the strong bond market, recalled the years from 1985 and 1988 when the Japanese equity market boasted a "triple merit market" rating.

"Given the persistence of these three factors, we can expect the market to make progress," says Mr Luard. An improvement in market volumes, thanks to increased participation from domestic institutions and a renewed interest from foreigners, reflected a growing confidence in the market. In the first week of October, the most up-to-date figures available, foreigners made their first net purchases of Japanese equities for eight weeks.

In the short term the Nikkei could breach the psychologically important 26,000 level, says Mr Luard, which would represent a recovery of about one-third of its recent drop.

In Europe the leading performer was Spain, which rose 7.4 per cent in local currency terms. Ms Amanda Sisson, Spanish analyst at Barclays de Zoete Wedd, says that while the big drop in crude oil prices helped, heavy buying of bank shares in anticipation of good third-quarter results led the market higher. Banco Popular, which has not followed the other major banks' lead in offering high-yielding current accounts, was particularly sought, rising 14.6 per cent on the week.

While interest rates are not expected to fall before the second quarter of 1991, investors were encouraged by statements from the Bank of Spain that credit controls would be lifted by the end of the year. Currently banks have a 10 per cent ceiling on loan growth.

Short term, the Spanish equity market could suffer some profit-taking, says Ms Sisson, but improved volumes are a sign of renewed confidence. Daily turnover last week averaged about Pta9bn, up from Pta5bn to Pta6bn in prior weeks.

Sweden, on the other hand, continued to fall on growing concern about the deteriorating economy. In local currency terms the market slipped 4.6 per cent last week. An increase in interest rates from 14 per cent to 17 per cent in an attempt to prevent a run on the currency fuelled fears of a devaluation of the Swedish krone. Swiss Bank Corporation points out that even the outlook for export-oriented stocks is clouding over. Enthusiasm for Astra, the pharmaceutical company which has been pursued on expectations that its anti-ulcer drug Losec will be a money-spinner, appears to be cooling off, the broker says.

In the Pacific, New Zealand gained 7.1 per cent as the weakening domestic dollar prompted some overseas buying. Malaysia rose 1.5 per cent before the general election.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1990	Start of 1990	Start of 1990
Austria	+4.66	+3.14	+2.23	+0.56	-7.34	+12.60
Belgium	+1.25	+0.81	-23.64	-23.19	-27.23	-11.58
Denmark	+2.89	+1.39	+0.70	-6.62	-11.92	+7.04
Finland	-1.05	-9.78	-32.39	-33.45	-38.17	-24.68
France	+3.10	+5.09	-16.58	-21.13	-25.44	-9.39
W. Germany	+1.60	+3.58	-2.64	-15.43	-21.65	-4.76
Ireland	+2.98	+6.89	-21.12	-23.69	-27.86	-12.36
Italy	+1.28	+0.40	-20.16	-22.61	-28.23	-12.78
Netherlands	+0.08	-2.94	-15.45	-16.69	-22.64	-5.99
Norway	-0.87	-11.12	+14.63	+6.67	-1.13	+20.16
Spain	+7.37	+5.55	-25.86	-21.63	-25.42	-9.37
Sweden	-4.60	-7.919	-16.76	-18.79	-26.04	-10.12
Switzerland	+2.74	+2.60	-16.84	-16.76	-16.78	+1.13
UK	-0.31	+3.70	-6.56	-15.06	-15.06	+3.21
EUROPE	+1.05	+2.77	-10.87	-16.91	-19.65	-2.73
Australia	+3.82	-3.19	-15.28	-15.41	-31.12	-16.30
Hong Kong	+2.56	+1.68	+7.62	+3.19	-14.83	+3.50
Japan	+10.00	+4.25	-33.44	-38.22	-41.93	-29.44
Malaysia	+1.49	-6.36	-4.09	-17.08	-31.76	-17.08
New Zealand	+7.06	-3.89	-32.47	-26.07	-37.98	-24.62
Singapore	+4.29	-3.40	-13.56	-19.91	-26.88	-11.14
Canada	+1.31	-3.73	-18.96	-18.35	-33.35	-19.01
USA	+4.07	+0.19	-10.82	-12.09	-27.66	-12.09
Mexico	+4.59	+3.11	+86.82	+73.63	+31.45	+59.74
South Africa	-3.18	-6.68	+3.61	-15.00	-32.90	-18.46
WORLD INDEX	+5.11	+2.13	-19.73	-23.81	-31.94	-17.29

† Based on October 19th 1990. Copyright, The Financial Times Limited, Goldman, Sachs & Co., and County NatWest Securities Ltd.

ASIA PACIFIC

Nikkei rises above 25,000 but volume slips

Tokyo

EQUITIES registered their sixth straight rise yesterday, responding to lower crude prices and Friday's gains in New York, *writes Martina Gannon in Tokyo*.

The Nikkei Average closed above 25,000 for the first time since September 13, its longest-sustained rise this year.

Index-linked buying by investment trusts dominated early trading; later there was support from small-lot purchasing across the board. Institutional investors, who re-entered the market on Friday after keeping to the sidelines for some time, were strong buyers, although dealers continued to dominate trading.

The Nikkei, which rose to a high of 25,232.38 at one stage, closed at 25,070.86, up 589.37. The day's low was 24,489.51. Volume fell from Friday's record high of 1.1bn shares to a moderate 600m.

The Topix index of all listed stocks added 42.01 at 1,858.30. The second section also rose, but in London the ISE/Nikkei 50 index lost 6.77 to 1,423.99.

In the afternoon NTT advanced by its daily limit of Y100,000 to Y930,000 and trading in the issue was temporarily suspended. Last Friday, the company unveiled a package of measures which, it expected, would support its sagging share price.

Morning risers included steels, shipbuilders and constructions. Sato Kogyo, a company expected to benefit from the government's increased public works spending as nearly 40 per cent of its sales is generated in the civil engineering sector, rose Y30 to Y1,750.

High-tech, export-oriented issues, weak features last week on the yen's strengthening against the dollar, rallied briskly as the currency's rise abated. Pioneer Electronic forged ahead Y140 to Y4,430 and Sony Y100 to Y6,600.

Railways, heavy electricals and brokerage houses were in good form. Nomura Securities advanced Y120 to Y1,910 and Sumitomo Bank Y130 to Y1,880.

Among the day's few declining issues were some food and drug shares. Daiichi Pharmaceutical dipped Y10 to Y2,420 and Sankyo fell Y20 to Y2,380. Elsewhere, Mitsubishi Estate shed Y10 to Y1,290.

Mr Christopher Leighton of Schroder Securities said: "We believe that [now that the average has passed the 24,000 level] it has gathered momentum and will continue rising to go over 26,000 within the next week and a half.

"Whether it will advance past that remains to be seen, as there has been a bit of technical resistance," he added.

Among others making good headway were chemical, machinery, construction and transport issues. Foods and shipbuildings lost ground.

The OSE average climbed 378.43 to 28,260.83 on reduced volume of 47.9m shares, about half of Friday's 96.2m.

Roundup

GAINS on Wall Street on Friday and Tokyo's good start to the week boosted most Pacific Rim markets. New Zealand was closed for Labour Day.

KUALA LUMPUR made its largest single daily gain since August 27 following the landslide victory of the ruling coalition government.

The composite index jumped 18.96, or 3.9 per cent, to 495.75 and turnover nearly doubled to 66.1m shares from 35.6m.

JAKARTA's local index rose 10.88 to 407.86 but, as strict new settlement rules came into play, there was some question about the quality of the improvement.

By last Friday Indonesian shares were down 36 per cent since August 1. The new settlement rules involve heavy penalties for anyone who fails to settle within five days, and one foreign broker said yesterday that this had kept many dealers off the market floor, believing that their foreign clients would need at least eight days, rather than five, for the settlement process.

SINGAPORE rallied in brisk trading, boosted by general relief over the outcome of Malaysia's general election. Malaysian shares listed in Singapore benefited the most. The Straits Times Industrial index moved ahead 33.38 to 1,173.23.

MANILA ignored the threat of a strike on Wednesday to end higher, thanks to a firm oil sector on hopes of an oil strike in the southern Philippines. Drilling is expected to begin later this month with the arrival of the drill rig James Cunningham from Singapore on October 25. The composite index gained 7.2 to 547.65.

HONG KONG closed at its highest level since September 17, though profit-taking nearly halved the sharp early gains inspired by a local prime rate cut. The Hang Seng index put on 23.61 to 3,015.56, easily recapturing the crucial 3,000 level. Turnover dipped to HK$982m from HK$1.03bn.

AUSTRALIA retreated on profit-taking after a brief early rise. A futures-related arbitrage selling programme also put pressure on prices. Turnover fell to A$139m from A$185m. The All-Ordinaries index ended 4.1 off at 1,364.6.

Mr Rupert Murdoch's News Corp recovered 8 cents to A$5.56 ahead of today's annual meeting, when shareholders will be asked to agree to a three-tier share structure.

BOMBAY fell on heavy selling, triggered by political uncertainty as a row over a disputed religious site threatened to bring down Prime Minister VP Singh's minority government.

The government depends for survival on the Hindu revivalist Bharatiya Janata Party, which is spearheading a campaign on the issue. The BSE index dropped 56.78 to 1,223.40.

TAIWAN reversed early losses to end higher, boosted by demand for financials. Volume came to T$42.5bn, against T$32.5bn in Saturday's half-day session. The weighted index rose 131.17 to 3,216.19.

SEOUL also saw demand for financials. Volume expanded to Won394.1bn from Won254.6bn. The composite index improved 22.93 to 733.37.

BANGKOK strengthened on lower oil prices. The SET index advanced 31.17 to 683.33 in heavy turnover of 5bn baht. The market is closed today for a holiday.

EUROPE

Continent anticipates sombre New York start

LOWER oil prices did not sustain their appeal yesterday, as the more sombre Monday morning mood in New York was anticipated on the Continent, *writes Our Markets Staff*.

FRANKFURT started well in the pre-bourse, but it weakened thereafter, the DAX index closing 7.58 lower at 1,474.51 after the FAZ eased 0.30 to 634.85 at midsession.

Volume fell from DM4.9bn to DM4.5bn. Among the bearish news which dampened interest in the market was the joint economists' report which predicted only 1.5 per cent growth for the unified Germany in 1991, and inflation of up to 4.0 per cent that year in the 11 states which previously comprised West Germany.

Mr Jens Wiecking, at Merck Finck in Düsseldorf, said last night that the economists had underestimated the power of the West German economy in the past, but that he was inclined to agree with them about 1991.

There was technical pressure yesterday, he added, from the market's recent habit of rising on a Monday. Last Friday, jobbers tried to anticipate this feature by buying in advance, but the increase was not sustained yesterday.

Chemicals were depressed by a forecast from Bank Julius Baer (Deutschland) that the big three chemical companies will cut their dividends from DM13 to DM12 a share. Bayer, said Mr Graham Moynes of Williams de Broë, was hit worse than most because of scare stories about its third quarter earnings; he said that the company was standing by its 1990 forecast of earnings in Line with those of 1988, and that it would not have to decide on its 1990 dividend until April, 1991.

Carmakers were also lower, taking in a fall of DM9.10 to DM398 in Volkswagen, again on earnings worries. Constructions and consumer stocks were better and, in engineerings, MAN rose DM10 to DM366 on a rise in dividend from DM8 to DM11 a share. Continental managed a DM1 rise to DM252 before Sopaf, an Italian financial holding company, declared a 5 per cent holding in Continental which, it said, it had accumulated in October.

MILAN rose on short-covering but volume remained modest at around Friday's L130bn. Trading was becoming increasingly technical and short-term oriented, dealers said, with professionals taking their profits as soon as share prices made an advance. The Comit index rose 8.24 to 571.18.

The Ferruzzi group was in the limelight, following a weekend announcement that the State Industry Minister had approved terms under which Enimont could be offered to its private partner, Montedison. However, the future of the chemical venture was still in limbo; it is still not known what price the state will ask for its 40 per cent stake in Enimont, or whether Montedison will accept the offer. Enimont rose L59 to L1,249 and Montedison added L66 to L1,330.

Fiat rose L135 to L6,544. Mr Gianni Agnelli, the chairman, said at the weekend that a commercial and industrial accord with with the US Chrysler Corp was close. His remarks were also interpreted as meaning that the accord would not involve a share swap. Olivetti rose L103 to L4,250 on rumours that it would soon announce an agreement with AT&T of the US on mobile phones.

AMSTERDAM started off firmer, but prices soon came back as turnover remained low. The CBS Tendency index eased 0.6 to 96.6.

Fokker, which rose strongly last week on reports of a large buyer in the market, came back 40 cents to Fl 39.90 on profit-taking. Options on the stock start trading today.

PARIS drifted lower in technical trading before the end of the monthly trading account today. One dealer was surprised that there was not more profit-taking considering that this account had shown a better performance compared with prior months. The CAC 40 index eased 4.75 to 1,639.95 in turnover estimated at a light FFr1.5bn.

Michelin was again the most traded stock, with 296,900 shares changing hands. The price steadied after last week's plunge following the company warning that it would make a big loss this year, closing 90 centimes better at FFr60.10.

Oil stocks fell on the softer crude prices, with Total losing FFr5 to FFr665 and BP France easing FFr5.3 to FFrR103.60.

STOCKHOLM recovered partially from its heavy losses last week, on lower oil prices and on the government's austerity package, due later this week.

The Affärsvärlden index, which shed 4.9 per cent last week, jumped 2.9 per cent, or 26.8 to 941.9. An SKr11 gain in Ericsson B free shares to SKr222 boosted the index, following news that its subsidiary had won a share in an order for digital equipment from the German Bundespost.

OSLO came off the day's highs, triggered by enthusiasm about Norway's decision to peg the crown to the European Currency Unit. The all-share index closed 8.22 higher at 523.86 in moderate volume of NKr257m, after touching a high of 525.90.

BRUSSELS was led higher by chemicals which rebounded on lower oil prices. The cash market index gained 29.1 to 5,157.65.

On the forward market, Solvay rose BFr90 to BFr9,750 and Petrofina, the oil company, was steady at BFr10,325. Petrofina will make its first presentation to investors and analysts in New York on Friday.

ZURICH ended off its lows in thin volume, the Crédit Suisse index easing 2.6 to 502.8. Union Bank of Switzerland, the country's largest commercial bank, talked of "disappointing" third quarter profits, but analysts said this was in line with SBC and Crédit Suisse. UBS bearers rose SFr10 to SFr2,960.

SOUTH AFRICA

JOHANNESBURG lacked clear direction. Gold shares slipped in line with bullion prices, but the rest of the market was supported by a softer financial rand. The JSE all-gold index fell 15 to 1,343 and the all-share index rose 4 to 2,586.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	MONDAY OCTOBER 22 1990								FRIDAY OCTOBER 19 1990					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	1990 High	1990 Low	Year ago (approx)
Australia (78)	126.63	−0.1	96.33	100.86	99.81	107.81	+0.0	7.20	126.70	96.67	100.84	98.98	107.79	158.31	123.49	148.79
Austria (19)	207.08	+0.9	157.53	164.94	163.22	162.85	+1.3	1.68	205.16	155.23	163.28	160.27	160.81	285.63	178.57	163.14
Belgium (61)	136.45	−0.2	103.80	108.67	107.54	104.82	+0.4	5.53	136.76	103.48	108.83	106.83	104.38	160.02	126.67	142.70
Canada (120)	123.56	+0.2	93.99	98.40	97.38	104.95	+0.7	3.79	123.25	93.25	98.08	96.27	104.24	153.61	121.24	149.36
Denmark (33)	259.75	+0.2	197.59	206.89	204.73	203.67	+0.6	1.46	259.27	196.17	206.34	202.53	202.41	277.62	234.05	206.44
Finland (26)	100.25	+0.1	76.25	79.85	79.01	75.22	−0.1	3.64	100.16	75.78	79.72	78.24	75.26	152.28	100.16	124.54
France (123)	139.74	−1.2	106.30	111.29	110.13	111.25	−0.4	3.70	141.38	106.97	112.51	110.43	111.67	168.85	124.98	135.25
Germany (91)	116.30	−1.3	88.47	92.64	91.66	91.66	−0.4	2.45	117.80	89.12	93.76	92.01	92.01	144.63	101.38	98.04
Hong Kong (48)	122.65	+1.2	93.30	97.69	96.67	122.56	+1.2	5.38	121.23	91.73	96.48	94.71	121.11	147.49	112.24	115.36
Ireland (17)	162.61	+2.2	123.69	129.51	128.16	129.41	+3.0	4.04	159.10	120.37	126.61	124.28	125.66	198.57	139.04	161.76
Italy (91)	86.69	+1.0	65.95	69.04	68.33	73.50	+1.9	3.35	85.85	64.95	68.32	67.06	72.15	109.28	80.87	88.90
Japan (454)	142.16	+2.1	108.14	113.22	112.06	113.22	+2.1	0.75	139.29	105.39	110.85	108.82	110.85	197.26	106.58	186.79
Malaysia (35)	197.32	+3.9	150.10	157.15	155.52	204.92	+3.8	2.99	189.93	143.70	151.14	148.36	197.39	250.89	182.96	203.50
Mexico (13)	530.13	+2.0	403.26	422.23	417.83	1692.49	+1.8	0.40	519.89	393.36	413.75	406.11	1662.07	561.41	324.53	323.69
Netherland (41)	134.72	−0.4	102.48	107.30	106.18	105.08	+0.5	5.45	135.27	102.35	107.65	105.67	104.55	149.03	127.56	128.02
New Zealand (16)	54.47	+0.2	41.44	43.39	42.94	47.64	+0.0	7.07	54.34	41.11	43.25	42.45	47.64	75.36	50.73	79.33
Norway (27)	240.63	+0.2	183.04	191.65	189.66	192.37	+0.8	1.61	240.13	181.68	191.11	187.58	190.83	276.79	202.34	177.79
Singapore (25)	163.00	+3.5	123.99	129.83	126.47	128.22	+3.2	3.33	157.46	119.13	125.31	123.00	124.28	209.24	147.24	160.84
South Africa (60)	158.68	−1.0	120.69	126.37	125.05	129.65	+0.3	4.32	160.25	121.25	127.53	125.18	129.26	251.39	151.50	144.55
Spain (42)	148.73	+0.6	113.14	118.46	117.22	107.10	+1.1	5.18	147.80	111.83	117.63	115.45	105.92	182.25	128.54	160.10
Sweden (27)	177.97	+3.1	135.38	141.75	140.28	147.74	+3.3	2.75	172.61	130.60	137.37	134.83	142.97	234.93	158.07	179.62
Switzerland (67)	94.10	−1.1	71.58	74.95	74.17	74.70	−0.2	2.87	95.13	71.98	75.71	74.32	74.87	109.77	85.00	88.80
United Kingdom (300)	163.80	+0.0	124.60	130.45	129.09	124.60	+0.5	5.58	163.80	123.94	130.35	127.94	123.94	176.18	139.87	142.92
USA (533)	126.78	+0.8	96.44	100.98	99.93	126.78	+0.8	3.86	125.76	95.15	100.09	98.24	125.76	148.95	119.06	140.07
Europe (965)	138.09	−0.3	105.04	109.98	108.84	107.06	+0.4	4.36	138.50	104.79	110.22	108.19	106.64	157.65	124.91	125.89
Nordic (113)	187.69	+1.3	142.77	149.49	147.93	145.39	+1.7	2.06	185.23	140.15	147.41	144.69	142.99	223.29	172.38	168.33
Pacific Basin (856)	140.58	+2.0	106.94	111.97	110.80	113.07	+2.0	1.11	137.86	104.31	109.72	107.69	110.80	192.75	107.82	162.60
Euro−Pacific (1621)	139.94	+1.0	106.45	111.45	110.29	111.36	+1.4	2.42	138.49	104.78	110.21	108.18	109.85	174.18	116.03	160.00
North America (653)	126.50	+0.8	96.23	100.76	99.72	125.35	+0.8	3.86	125.52	94.97	99.90	98.06	124.35	148.43	119.26	140.53
Europe Ex. UK (665)	121.91	−0.5	92.74	97.12	96.11	96.57	+0.3	3.48	122.53	92.70	97.53	95.73	96.30	145.62	109.94	114.49
Pacific Ex. Japan (202)	121.28	+0.8	92.25	96.61	95.59	107.38	+0.8	6.11	120.32	91.04	95.77	94.00	106.52	146.72	117.08	132.25
World Ex. US (1814)	139.80	+1.0	106.34	111.35	110.19	111.76	+1.3	2.48	138.41	104.72	110.16	108.12	110.28	173.77	117.12	159.59
World Ex. UK (2047)	131.33	+1.1	99.90	104.61	103.52	115.73	+1.2	2.60	129.95	98.33	103.43	101.52	114.30	162.00	115.37	152.43
World Ex. So. Af. (2287)	134.06	+1.0	101.98	106.79	105.67	116.49	+1.2	2.92	132.79	100.47	105.69	103.74	115.14	161.84	118.04	151.60
World Ex. Japan (1893)	131.42	+0.3	99.97	104.68	103.59	118.16	+0.6	4.15	130.99	99.11	104.26	102.34	117.41	151.59	124.31	134.90
The World Index (2347)	134.21	+0.9	102.09	106.90	105.79	116.59	+1.2	2.93	132.96	100.60	105.82	103.67	115.24	162.05	118.33	151.56

Constituent change 22/10: Name change: TR Trustees Corp. to TR Smaller Companies Inv. Trust. (UK).

FINANCIAL TIMES SURVEY

CANADA

■ Canada's economy: there is widespread agreement that 1991 will be a tough year: see page 3.

■ Despite problems, the banking system and financial institutions show cautious optimism: see page 4.

SECTION IV

Tuesday, October 23, 1990

Signs of intolerance and unrest reflect a profound identity and adjustment crisis in Canada. The prospects of the country that has long-prided itself on unrivalled stability have now become disturbingly uncertain, as Bernard Simon reports here.

An identity crisis unfolds

PICK A word that best describes Canada. Your choice will probably include one of the following: dull, tranquil, boring, contented, tolerant, and of course, cold.

The only one of those words that aptly describes the world's second-biggest country and seventh biggest economy in the autumn of 1990 is cold.

Far from being contented, Canadians are in a sour, disgruntled mood. Their normally tranquil political scene has become unusually volatile.

Most unsettling, the prospects of a country that has long prided itself on unrivalled stability, have become disturbingly uncertain.

Canadians themselves have rubbed their eyes in disbelief at some of the images coming out of their country lately. Could it be in peaceful, law-abiding Canada, that hundreds of soldiers and armoured vehicles would for more than two months face masked, heavily-armed Mohawk Indians across barbed wire and barricades?

The image of Canadians as a polite, even-tempered people hardly matches the sight of elderly members of the Senate in Ottawa trying to stop an unpopular tax measure by blowing whistles, banging desk-tops and inviting TV cameramen onto the floor of the upper chamber of parliament.

A distinctly un-Canadian intolerance has abounded in the past year, whether in the form of Anglophone city councils around Ontario refusing to provide municipal services in French, or Quebeckers protesting against growing numbers of non-French speaking immigrants.

Unhappily for Canada, these are not isolated incidents. Rather, they are the symptoms of a profound identity and adjustment crisis in which Canadians are having to make some tough decisions about their own future and their relations with the outside world.

The issues, both political and economic, could hardly be more fundamental to the future direction of the country. As a senior cabinet minister in Ottawa puts it, Canadians need to examine "whether we want a country in the first place, and whether there are values that we share."

The Economic Council of Canada, a government-funded think-tank, said in its latest annual report published last month, that "we must in effect manage two complex transitions at the same time. Internally, we must rethink our economic priorities and our institutions; externally, we must continue to adapt to the new global realities."

The political landscape has gained a rougher edge from the harsh, three-year long debate over the Meech Lake accord, the package of constitutional reforms conceived by prime minister Brian Mulroney to make Quebec a full member of the Canadian family by having it sign the 1982 constitution.

Bold as Mr Mulroney's initiative was, it not only failed to bring Quebec into the constitution, but also brought to the surface stresses and strains in the ever-fragile Canadian fabric.

By the time the accord sank in a swamp of ill-will last June, it had ignited a new wave of nationalism in Quebec, stirred up considerable resentment against Quebec in English Canada, helped nurture a new sense of alienation in the west, and raised the stakes in native Canadians' demands for greater autonomy and settlement of their land claims.

Meech Lake's legacy is an unaccustomed volatility and polarisation in Canadian politics. Two new regional groupings, the ultra-nationalistic Bloc Quebecois in Quebec and the Reform Party in western Canada, have attracted huge public support at the expense of the two largest mainstream parties, the ruling Progressive Conservatives and the Liberals.

Both the BQ and the Reform Party have won handsome majorities in by-elections.

Voters' discontent was also evident in the stunning victory of the left-wing New Democratic Party in provincial elections in Ontario in early September.

It is widely assumed that almost 40 per cent of voters in Canada's richest region plumped for the NDP, not because of any special fondness for the greater degree of government intervention which the party has promised, but as a protest against being taken for granted by the other two parties.

The disgruntlement extends to the economic sphere. Besides the discomfort of entering what is expected to be a longish (if relatively shallow) cyclical recession, the economy faces some challenging and painful structural adjustments.

The US-Canada free trade agreement, which came into force at the beginning of 1989, is forcing Canadian business and labour into more direct competition with American companies which, in many cases, are more efficient and more productive.

For instance, the high-cost food processing industry, hitherto based on a supply-management system which guarantees high prices to Canadian farmers, is increasingly having to compete against cheaper US imports.

Meanwhile, the ability of governments to put a crutch under weak industries or regions, and indeed to maintain the standards of public service to which Canadians have been accustomed, is under severe strain.

The Economic Council of Canada notes that "Canadians are going to have to scale down their expectations regarding the capacity of governments to solve their problems.

National governments are losing some of their traditional levers of power, and the federal government in particular is experiencing serious financial difficulties."

Although the Mulroney government has kept a lid on federal spending, the budget deficit has remained stubbornly high at about C$30bn a year.

The key reason is the upward march of interest rates since 1987. As a result of the former Liberal government's profligacy, interest payments now make up more than 30 per cent of federal government spending, by far the largest single item.

The fiscal spotlight is gradually shifting to lower levels of government. Provinces and municipalities make up almost two-thirds of public outlays and, in contrast to the federal government, have pumped up their spending enormously in recent years.

For all the forces tearing at the national fabric, most Canadians are by no means ready to acquiesce in the fragmentation of their country, whether in the form of Quebec taking its own seat at the United Nations, or of some of the eastern or western provinces joining the US.

A poll taken immediately after the collapse of Meech Lake showed that four in every five Canadians do not want their country to be part of their giant neighbour to the south.

While Quebec nationalists would like a greater measure of autonomy for their province, most would be happy for Ottawa to continue running their post office, seeing to their defence needs, and even printing their currency.

Indeed, the Mulroney government is hoping that it can win re-election by building on the theme of a single, united and confident Canada.

Issues that transcend regional boundaries, such as the environment and day-care, will probably figure prominently in the run-up to the next election, expected to be called in 1992.

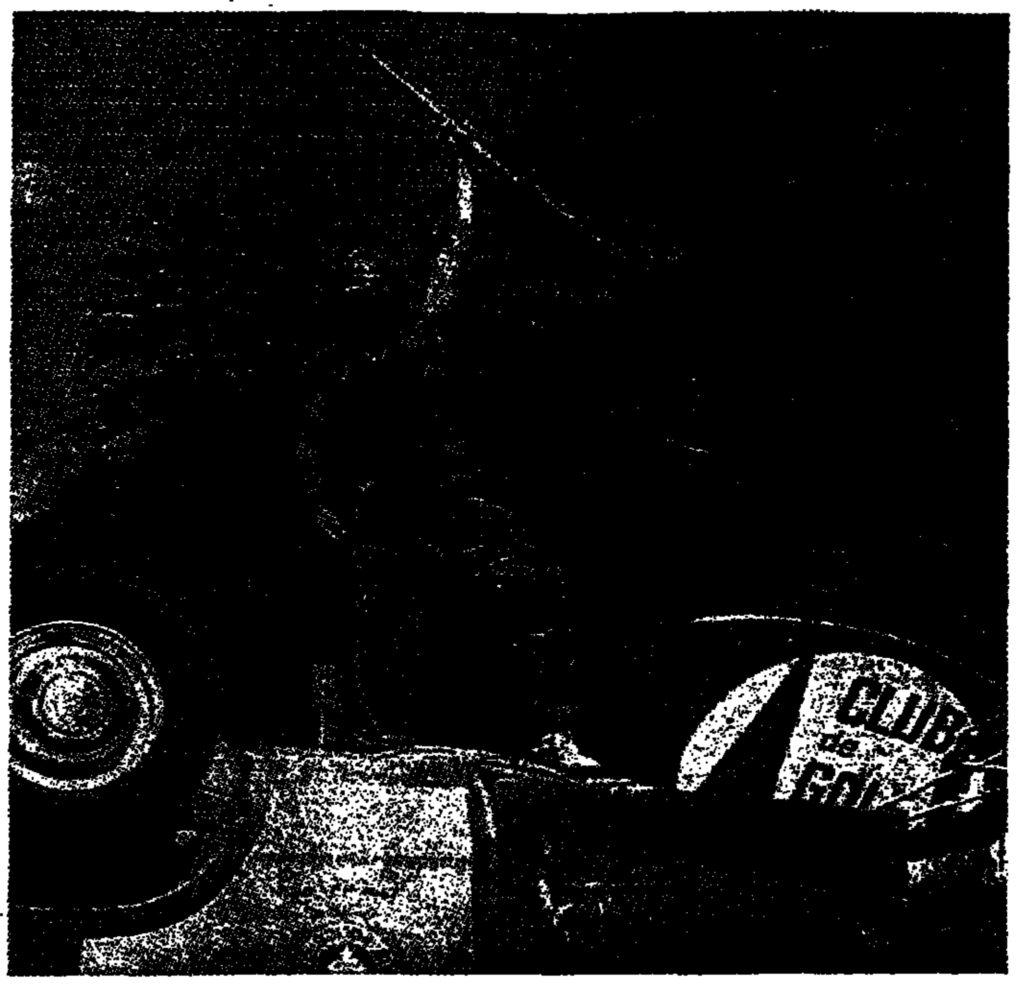
The government will soon launch an ambitious effort at "consensus-building dialogue", which will include hundreds of meetings in communities across the country to give Canadians a more focused forum than radio hot-line shows to vent their hopes and frustrations.

A plethora of more formal groups is also being set up on both a national and regional level to chart the future course of the country.

The federal government is planning a commission on constitutional reform in an effort to avoid a repetition of the messy Meech Lake process.

In Quebec, a group of business, labour and community leaders is discussing the francophone province's options for the future, in tandem with a study by the ruling Liberal party. The province's premier has instructed these groups to consider all alternatives, bar two: joining the US and retaining the status quo.

Across the country, there already appears to be a consensus about one thing: if Canada is to survive with the attributes which have made it the envy of so many other nations, some significant changes are inevitable in the way this vast, diverse country is run.



A warrior-like Indian stands triumphant on an overturned police vehicle, blocking a highway in Quebec after police action failed to remove Mohawk barriers.

IN THIS SURVEY

☐ *Canada's Prime Minister Brian Mulroney: although his government has kept the lid on federal spending, the budget deficit has remained stubbornly high at about C$30bn a year.*

☐ *Editorial production by Michael Wiltshire.*

POLITICS

Likely to become a much livelier spectator-sport

THE FIRST tangible evidence of a new fluidity in Canadian politics came not from Quebec, as one might have expected, but from the western province of Alberta.

Just four months after the Conservatives made a clean sweep of Alberta in the November 1988 election, a candidate from the fiercely regional Reform Party won a stunning 4,200-vote majority in a by-election in a rural constituency.

The unsettled mood which produced the upset in Alberta has subsequently brought a succession of upsets and surprises across the country, to the point where few Canadians would venture a bet on the outcome of the next federal election, which will probably be called some time in 1992, or the handful of provincial polls likely to be held before then.

If there is a constant in the shifting political landscape, it is that the two biggest parties, the Conservatives and Liberals, have been put on the defensive by a variety of groups representing more clearly defined ideological and regional interests.

In federal politics, the debate over Quebec's future role in Canada has spawned the nationalistic Bloc Québécois, a group of nine MPs who defected from the Tories and the Liberals. The party proved its grassroots support in August by winning a huge majority in a by-election in an east-end Montreal constituency once regarded as a Liberal stronghold.

The Reform Party has continued to flourish, mainly in British Columbia and Alberta, on a platform which emphasises the interests of western Canada, including greater representation in the Senate and an end to forced bilingualism.

On the provincial front, the big winner recently has been the New Democratic Party, the left-leaning group which sprang in the early 1960s from the co-operative movement on the prairies, and now also leans heavily on trade unions and university campuses for support. It scored one of the great upsets of Canadian political history in September with its win in provincial elections in Ontario, where the incumbent Liberals were so confident of victory that they called an election with two years of their mandate still to go. The NDP also put in a strong showing in later elections in Manitoba.

Underlining the electorate's heightened volatility is the unusually high support for a variety of single-issue, fringe parties. These groups managed to gain 7 per cent of the votes cast in Ontario, and have shown similar standings in national opinion polls.

Canadians are now debating the significance of this fragmentation of political allegiances. Is it merely a temporary protest against governing parties of the kind to be expected when voters are grumpy about everything from the economy to the Prime Minister's style? Or is it the start of a fundamental shift in the political system where regional or special-interest parties will in future hold the balance of power between Liberals and Conservatives?

One compelling argument in favour of the latter interpretation is that the Tories and the Liberals are worried in about equal measure. Recent opinion polls give the Mulroney Government an approval rating of only 15-20 per cent of decided voters, the lowest for a ruling party in almost half a century.

The Tories are especially concerned about the strength of the Reform Party in the west, where hatred of the Trudeau Liberals in 1984 and solid backing for the free trade deal four years later have guaranteed solid support for Mr Mulroney in the past two elections.

The Liberals' biggest problem is in Quebec, whose relatively homogeneous population and large bloc of MPs make it a key to victory in federal elections. With the defections to the Bloc Québécois, the Liberal caucus in the House of Commons now has only a handful of French-speaking members from Quebec. One sign of the Liberals' shaky standing in Quebec is that the new leader, Mr Jean Chrétien, although himself a Quebecker, has decided to run for parliament in a safe seat in New Brunswick.

Provincial Liberals' defeat in Ontario and their poor showing in Manitoba are further pointers to an uphill battle for the federal party ahead of the next election. The fortunes of the two mainline parties are now heavily dependent on the strength of the NDP, the Bloc Québécois and the Reform Party. A surge in support for the New Democrats on the federal level would take more votes from the Liberals than the Tories.

The key to the NDP's credibility appears to be the performance of the new Government in Ontario headed by Mr Bob Rae. With an ineffectual leader in Ottawa in the form of Ms Audrey McLaughlin, New Democrats are hoping Mr Rae will show the country that the party should be taken more seriously at the federal level too. The Tories are crossing fingers that the Bloc Québécois will in future concentrate on provincial politics in Quebec.

The BQ may figure that it can wield more leverage on Ottawa by controlling the provincial government than through what will always be a minority of MPs in the House of Commons. The political rumour mill suggests that the group's leader, former Tory cabinet minister Lucien Bouchard, has set his sights on becoming the next premier of Quebec. As for the threat from the Reform Party, the Mulroney Government is now searching for an issue that can bring the west back to its side, as free trade did in 1988.

A robust economic recovery in 1992 would do the trick best of all. But in the absence of that, the Tories will be beating the drum of a strong, confident and united Canada in the run-up to the next election.

Whether or not they succeed in getting that message across, Canadian politics over the next few years should be a much livelier spectator sport than it has been in the past.

Bernard Simon

PROVINCIAL GOVERNMENTS

List of provinces, showing governing party and year of the last election:

Newfoundland	Liberal, 1989
Nova Scotia	Conservative, 1988
Prince Edward Island	Liberal, 1989
New Brunswick	Liberal, 1987
Quebec	Liberal, 1988
Ontario	New Democrat, 1990
Manitoba	Conservative, 1990
Saskatchewan	Conservative, 1986
Alberta	Conservative, 1989
British Columbia	Social Credit, 1986

HOUSE OF COMMONS

State of the parties, October, 1990, showing parties and number of seats:

Progressive	159
Liberal	78
New Democrat	44
Bloc Quebecois	9
Reform	1
Independent	2
Vacancies	2
TOTAL	295

View of Parliament Hill and parliament buildings in Ottawa, Ontario.

KEY FACTS AND INDICATORS

Area	9,220,970 sq km
Population	26.25 million, (1989 estimate)
Head of State	Queen Elizabeth II
Currency	Canadian dollar (C$)
Average exchange rate	1988 US$1 = C$1.23
	1989 US$1 = C$1.18

ECONOMIC INDICATORS

	1988	1989
Total GDP (US$bn)	490.3	550.3
Real GDP growth (%)	4.4	3.0
GDP per capita (US$)	18894	20965
Components of GDP (%)		
Private consumption	56.0	59.5
Gross fixed investment	24.6	22.7
Increase in stocks	-	0.6
Government consumption	17.7	19.0
Exports	34.0	27.6
Imports	-32.5	-29.8
Current account balance (US$bn)	-8.3	-16.6
Exports (US$bn)	114.8	120.9
Imports (US$bn)	105.9	115.9
Trade balance (US$bn)	8.9	5.0
Main trading partners (% of total value)		
Exports		
United States	70.5	73.7
Japan	6.0	6.4
Imports		
United States	64.7	65.4
Japan	6.6	7.0
Public external debt (US$bn)	42.8	47.0
Consumer prices (% change per year)	4.0	5.0
Industrial wage rates (% change p.a.)	4.6	5.5
Unemployment (% of labour force)	7.8	7.5
Total reserves, minus gold (US$bn)	15.4	16.1
M1 growth rate (% p.a.)	7.4	2.5
M3 growth rate (% p.a.)	11.6	12.8
Bank Rate (% p.a., end-period)	11.2	12.5
Treasury Bill Rate (%, period average)	9.5	12.0
Long-term Govt.Bond Yield (%, period average)	10.2	9.9
FTA Canada index (% change over year)	+ 4.3	+17.6

Sources: IMF, Datastream, Economist Intelligence Unit.

Political profile

Ontario's Bob Rae: presenting a dual image

Bob Rae, new provincial premier: a stunning victory

After its first few weeks in office, Canada's only New Democratic Party government has been more conciliatory to business than its harshest critics feared, says Bernard Simon

WITHIN hours of the votes being counted on September 6, some glum businessmen had renamed Canada's wealthiest province "The People's Republic of Ontario."

Others observers, however, were optimistic that the incoming New Democratic Party Government would toss its left-wing campaign promises overboard as it came face-to-face with the reality of running a sophisticated and diversified regional economy.

The divergence of views on how the NDP will use its stunning victory at the polls reflects, in part, the contrasting images projected by the new provincial premier, Mr Bob Rae.

In his suit, stylish braces and studious-looking spectacles, Mr Rae, 42, could easily be mistaken for a banker or corporate director.

He is the son of a diplomat, was educated at a private school in Switzerland and went to Oxford as a Rhodes Scholar. He is no socialist tub-thumper.

Mr Rae told a group of Toronto business people that "you don't have to contribute to my political party to have breakfast with me".

As if recognising the diversity of his constituency, he began his first speech as premier by addressing his audience as "brothers and sisters, ladies and gentlemen."

But there is another side to Mr Rae and to his party — a side which was summed up by his suggestion to a business audience that money forked out to pricey Government consultants would be better spent on food banks for Toronto's poor and homeless.

The platform on which the NDP fought the election is well to the left of any previous Ontario Government.

It promised, among other things, a minimum corporate tax, a jump in the statutory minimum wage to 60 per cent of average industry pay, a Government-run car insurance scheme, stricter rent controls, and tougher anti-pollution rules.

Mr Rae has already shown signs of backing away from some of the promises. The NDP said during the campaign that it planned to ignore the US-Canada free trade agreement.

Since then, Mr Rae has said only that he wants to find ways of softening the blow to companies and workers hurt by rising competition from US imports.

Furthermore, the state of the provincial economy leaves the new Government with limited room for ambitious spending programmes or higher taxes. The small budget surplus forecast by the outgoing Liberals for the 1990/91 fiscal year has already turned into a C$2.5bn deficit.

With the economy now in recession, the new government expects a steep fall in tax revenues and a jump in social payments.

Ontario enjoyed one of the highest growth rates in Canada in the 1980s, but is now suffering a more severe slowdown than most other parts of the country.

Mr Rae has insisted that "we must create a partnership with the private sector and the business community through negotiation and discussion."

The business community is disturbed, however, by some of Mr Rae's cabinet choices. The new labour minister is a former organiser for the Steelworkers of America trade union.

The civil service portfolio has gone to a former negotiator for the civil servants' union.

On balance, after its first few weeks in office, Canada's only NDP Government has been more conciliatory to business than its harshest critics feared, but less friendly than the optimists hoped.

The best bet is that things will stay that way.

Most of the ten provinces are projecting bigger deficits in 1991, says **Bernard Simon**

Economic recession looks inevitable

THREE AND A HALF years of rising interest rates and an erratic tightening of fiscal policy have at last taken the heat out of the Canadian economy.

"The question is not whether Canada will go through a recession, but rather how deep and how long the recession will be," National Bank of Canada says in its latest economic forecast.

There is widespread agreement that 1991 will be a tough year. Toronto-Dominion Bank forecasts real GDP growth of 1 per cent next year, only fractionally higher than its 1990 estimate and well below the 3 per cent posted in 1989.

Mr George Vasic, director of economic research at DRI/McGraw-Hill, puts forward somewhat higher numbers, with overall growth at 1.5 and 1.9 per cent in 1990 and 1991 respectively. But he agrees that the current business cycle will be saucer-shaped, with a very shallow recovery.

The brunt of the downturn is likely to be felt by the housing *market and other consumer-*oriented businesses.

Housing starts had already fallen to an annualised 137,000 units in September, 1990, from 215,000 in 1989.

From a regional point of view, southern Ontario - which enjoyed the strongest growth in the mid-1980s - is now bracing itself for the steepest downturn.

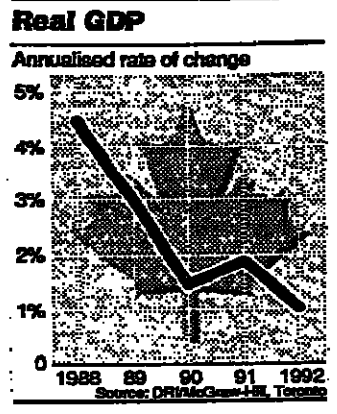
The area around Toronto depends heavily on the steel and automotive industries, as well as on construction. The city's commercial and residential property markets are already in a nosedive.

The Bank of Canada has responded to the rapid cooling of demand by allowing interest rates to fall. Commercial banks' prime lending rate has dipped from 14.75 per cent to 13.75 per cent since early August.

The all-important spread between US and Canadian short-term rates has narrowed from a peak of almost six percentage points early this year to just below five.

Real GDP

Annualised rate of change



However, the authorities remain cautious. Having been one of the first central banks to see the dangers of excessive demand in the late 1980s, the Bank of Canada continues to keep a watchful eye on inflation.

On the plus side, Mr John Crow, the bank's governor, said last month that "as the demand pressures on inflation have become less intense, there has been scope for easier monetary conditions."

After remaining stubbornly above 5 per cent for much of 1989, inflation - measured by the consumer price index - dipped to 4.1 per cent in the year to August 1990.

But, Mr Crow added, "in order to maintain low interest rates, monetary policy must encourage Canadians to base their action on declining rather than on rising inflation."

Besides the unpredictable oil price, the biggest concern on the inflation front is the 7 per cent goods and services tax (GST), a broadly-based value-added tax due to be introduced on January 1, 1991, as a replacement for a 13.5 per cent manufacturers sales tax (*MST*).

The Government estimates *that the GST alone will raise* the consumer price index by 1.25 per cent.

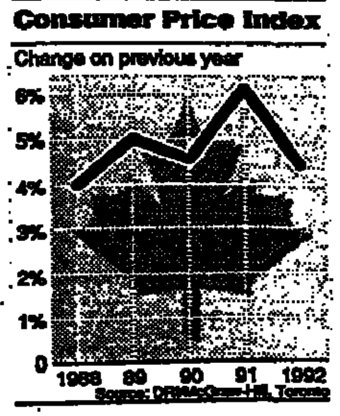
The slowing economy will encourage many businesses either to absorb some of the new tax, or at least to pass on any savings from the abolition of the MST.

Private-sector economists are generally less optimistic than the Government. Toronto-Dominion expects the CPI to jump to an annualised rate of 6-7 per cent or more in early 1991, with a rate for the year of 6.5 per cent. But the sluggish economy and cooling wage demands could bring inflation down substantially again in 1992.

Coupled with the outlook for growth and inflation, Ottawa's ability to *hold* down interest rates depends heavily on fiscal discipline. The Organisation *for Economic Co-operation* and Development, in its latest annual report on Canada, notes that "the risk of fiscal policy entering a vicious circle of expanding Government deficits, higher debt service and a debt explosion has substantially lessened in recent years."

Consumer Price Index

Change on previous year



The OECD projects a drop in the general Government deficit from 3.5 per cent of GDP in 1989 to about 2.7 per cent in 1991.

Meeting that target will not be easy, however. Mr Michael Wilson, Finance Minister, disclosed in September that Ottawa's budget deficit for the year to March 31, 1991, will be C$1-1.5bn higher than the targeted C$28.5bn.

Higher tax revenues and virtually stagnant programme spending have been offset by the impact of high interest rates on debt-service payments, which absorb close to 35 per cent of federal revenues.

While the federal Government can take credit for keeping the lid on its programmes, the same cannot be said for the provinces. *Some, notably* Ontario, have been spending, in the words of a senior policymaker, "like drunken sailors."

Most of the ten provinces are projecting bigger deficits in 1991. New Brunswick's will probably double.

Ontario, which originally hoped for a small surplus this year, will now have a deficit of at least C$700m, probably shooting well above C$1bn in 1991/92.

Pressure to loosen the fiscal reins will be intense on both the federal and provincial levels over the next two to three years. The recession will create extra demands on the public purse. Fiscal discipline is unlikely to be a high priority for the new NDP Government in Ontario.

The federal Government, as it tries to heal the national psyche, will find its arm twisted hard by regional interest groups wanting support for their pet projects. And that pressure will grow as the next federal election draws closer.

The Government's own economic think-tank, the Economic Council of Canada, observed in its latest annual report that, for all the desir*ability of holding* the line on the budget, "further progress on federal deficit reduction will be difficult to achieve."

Foreign investors take their time

MR MICHAEL HOWARD, the investment adviser at Canada's embassy in Tokyo from 1986-1989, recalls his attempts there to convince Japan that Canada is not snowbound 12 months of the year.

Given the seven-fold increase in the net flow of foreign direct investment by Japan in Canada between 1985 and 1989, he appears to have succeeded in demolishing this chilling myth. However, Canada now faces a new, less familiar image problem. Its political arena, once considered unutterably boring, is now in uncharacteristic turmoil.

The abortive fate of the Meech Lake agreement on constitutional changes, an Indian uprising in Quebec, a popular tax revolt, an overvalued Canadian dollar, high interest rates, an economic downturn, and the deep political difficulties of Prime Minister Mr Brian Mulroney have all added up to a climate in Canada which, snow aside, is threatening foreign investment.

Canada's ability to raise funds in world capital markets has shown signs of faltering. Canada reported at the end of September that foreign investment in Canadian stocks and bonds had fallen 22 per cent to C$6.5bn during the first seven months of 1990. Japanese investors, retrenching at home, have cut back especially hard on Canadian securities.

With international confidence eroding and a burdensome annual deficit of C$30bn, Canada is apt to face paying higher costs for its borrowing. Interest rates on Canadian government 20-year bonds are already running to 2.25 percentage points above those of *US Treasury bonds*.

To add to the woes, domestic business, through the Canadian Manufacturers' Association, has told Mr Mulroney that it is also starting to lose confidence in the country's economy. Given the Canada-US Free Trade Agreement, an increasing number of Canadian manufacturers are considering moving operations to the US.

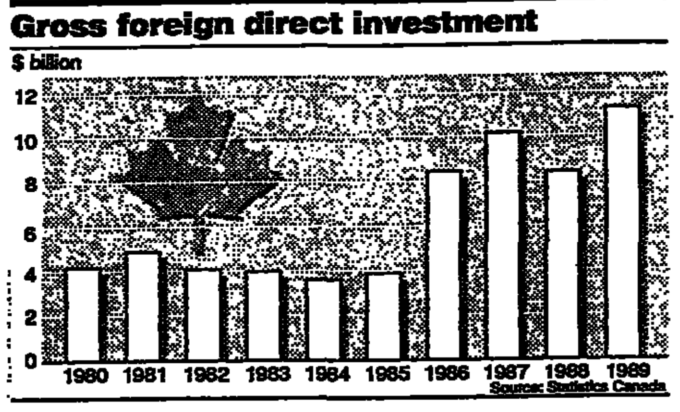
Until this year, however, Canada's attractions have far outweighed its problems for foreign investors. Gross flows of foreign direct investment doubled during the 1980s, and since 1985 have increased dramatically from less than C$4bn annually to C$11.4bn in 1989.

The country can boast some important achievements: after tax profits have consistently outpaced those in the United States. Federal corporate income taxes have been reduced from 35 per cent to 28 per cent. There are also longer term features:

- Under the Canada-US Free Trade Agreement, investors have access to a bi-national market of 270m consumers.
- The Canadian workforce is highly skilled. Public sector spending on education is higher than other G-7 countries as share of GDP.
- Average wage and benefit costs in manufacturing tend to be below those of the US and labour relations, as measured by strikes, have improved.
- The country has abundant natural resources and is oil self-sufficient. Energy costs are lower than in the US.
- It received the highest rating for transportation, communications and power supply infrastructure among the G-7 countries in the 1990 survey of international business leaders by the World Economic Forum.

Gross foreign direct investment

$ billion



While the government has advertised Canada as "open for business" regarding *foreign* investment, the issue arouses persistent domestic sensitivities. US investment stirs the greatest worry among Canadians who feel that their sovereignty is constantly in peril of being overrun by the colossus to the south.

The sensitivity is not unwarranted. A quarter of the country's assets are owned by foreigners and the lion's share is in the hands of Americans. Thus, Investment Canada, the government agency charged with promoting as well as approving foreign investment, appears bent on attracting anybody but their southern neighbours. The agency's promotional folder lists glowing testimonials about investing in Canada, but none are from the US.

Investment Canada's biggest card for selling Canada to-day is that investors can have access to the US market while taking advantage of Canada's high quality of life. Its cities, for example, are clean and suffer from far less crime than in the US.

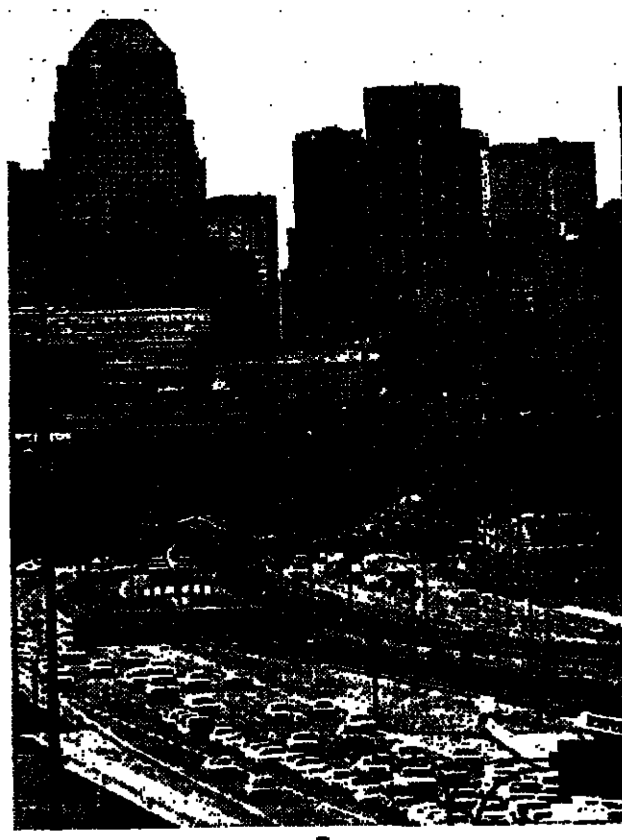
Given Canada's success at finding niches in international markets, it aims to attract *investors in select high technology fields*, including lasers, biotechnology, advanced materials, computer software, and waste management. Some of Canada's most successful companies are those that have discovered a new process or product and sought strategic alliances with foreign companies to obtain access to markets abroad.

But major investment projects, such as the recently approved C$5.2bn Hibernia offshore oil project whose consortium of four oil companies – Mobil, Chevron, Gulf, which all have significant US ties, and Petro-Canada, the soon to be privatised national oil company – all have significant US ties, are likely to dwarf smaller niche-type investments.

In the proposal stages, too, are several large natural gas pipelines to the US that could mean billions of dollars in investment.

Even in these troubled times for Canada, mega-projects such as these will go forward.

For those looking beyond this awkward moment, given the Canadian reputation for resolving disputes in a highly civilised manner, the country's attractions may well continue counterbalance its problems.



Canadian commercial property markets are looking dull. Above: the skyline of Calgary, capital of Alberta.

Reaction to the Free Trade Agreement

Signs of increasing public hostility

AS THE 1980s got off to a economically painful start, Canadians saw liberalised trade with the US as something that would help prevent the country from falling into another recession.

Now, a year and three quarters into its Free Trade Agreement (FTA) with the United States, Canada is wading into a new recession and public disillusionment with the accord is growing.

"Public hostility toward free trade shows every sign of increasing," says Mr Angus Reid, a prominent national pollster based in Winnipeg. While the FTA is unlikely to be thrown out, the danger is that public disfavour will toss it onto Canada's increasingly troubled and unpredictable political waters.

The popularity of Prime Minister Brian Mulroney, above, of the Progressive Conservative Party, is at rock bottom. His association with the FTA in the public mind does not help the pro-free traders' arguments.

"There is a public appetite to get more out of the deal," says Mr Reid, who believes it is politically possible that Canada could find itself with a new Government in 1993 that would call for changes in the FTA.

The agreement between Canada and the US, the world's two largest trading partners, began on January 1, 1989, and is to be implemented over ten years.

It gradually eliminates tariffs in one, five and ten year phases on the annual $200bn worth of Canada-US trade. More than three quarters of Canada's exports go south, and the US sends about one fifth of its exports north.

The FTA facilitates investment and business travel, a provision attractive to Americans who account for some 70 per cent of Canada's foreign investment. A unique bi-national trade dispute mechanism was also created to help remove political motives from decisions.

The problem for pro-free traders and the current Canadian Government of Mr. Brian Mulroney, which negotiated the agreement, is that it is too early to be able to assess the FTA's effects. These are being overshadowed by other forces, such as a strong Canadian dollar and high interest rates.

Consequently, without a list of identifiable FTA benefits, the Government is left with little ammunition to defend what is considered the centerpiece of its policy achievements.

Labour leaders and Canadian nationalists, the FTA's prime critics, charge that the agreement is responsible for job losses as plants move to the US to serve the two markets, now with 270m consumers.

If Canada's economic recession is prolonged, the FTA could enter some dark days. The search is already on for a convenient scapegoat for why things have gone wrong.

The popularity of Mr. Mulroney of the Progressive Conservative party is at rock bottom. His association with the FTA in the public mind does not help the pro-free traders' arguments.

The political fortunes of the deal may also be influenced by talks about a US-Mexico free trade agreement, to which Canada has said it wants to be a party. The announcement by Mr. John Crosbie, the international trade minister, that Canada will participate in three-way exploratory negotiations on free trade immediately drew criticism from the two main opposition parties.

The business benefits of the agreement are not yet perceived by the public, says BARBARA DURR

The prospect of a New Democratic party government, never contemplated before the election of the NDP's Mr. Bob Rae to the premiership in Ontario last month, is regarded as the most likely scenario for changing the FTA. However, Mr. Rae, who campaigned against the FTA before his election victory, has now stopped saying he will ignore it.

This appears to support the analysis of Mr. Richard Lipsey, a nationally known expert on the FTA and chief of the Canadian Institute for Advanced Reserach at the Simon Fraser University in Vancouver. Mr Lipsey contends: "No Government in power could concievably tear it up." Even significant changes to the FTA do not stand a chance, he believes.

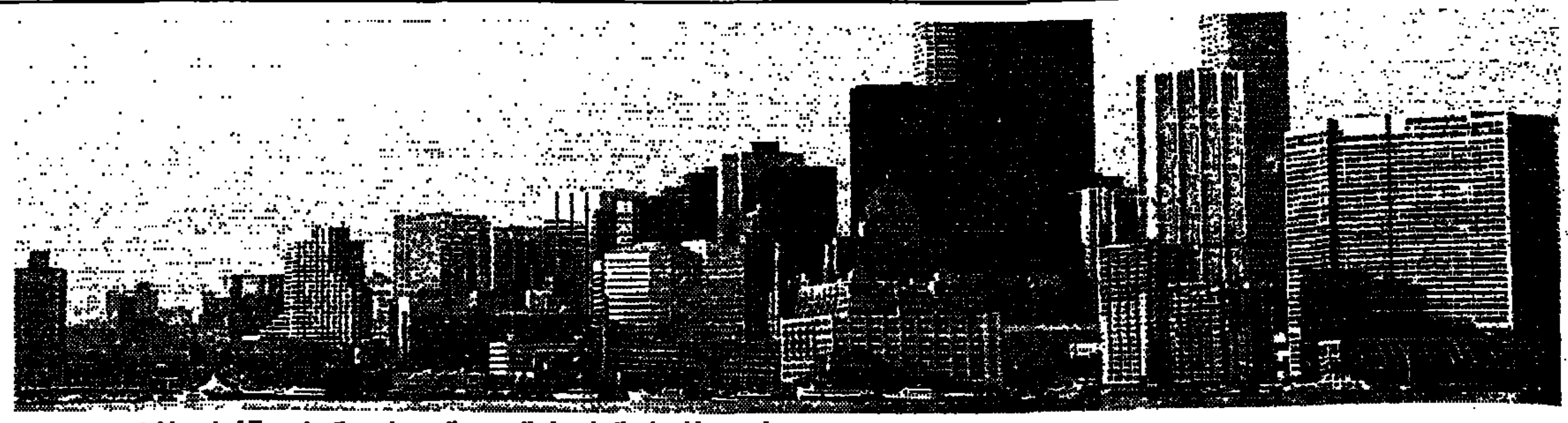
The reason is that the business community, which is calculated to be 95 per cent in favour of the agreement, would not tolerate undoing the FTA. "The markets would exact too high a price," says Mr Lipsey.

Business resistance to any FTA changes arises from the efforts companies already have made to adjust to the new regime. Surveys show that Canadian companies have restructured production away from protected areas of manufacturing and toward competitive exports. This has shifted investment and prompted mergers.

Although some of these moves occurred before the FTA was in place, merger activity in Canada during the first six months of the agreement was 31 percent higher than in the same period the previous year, according to a study by the Royal Bank of Canada.

Overall, according to Mr. Doug Waddell of the Ministry of External Affairs, companies on both sides of the border "are anxious to get on with it". During 1989, Canadian and US companies agreed to an accelerated cut of tariffs on 400 items covering approximately $6bn worth of bilateral commerce.

Unfortunately, such FTA benefits as greater competitiveness by Canadian companies are not yet publicly perceivable and do not rally support for a much-disliked deal.



The commercial heart of Toronto: there is cautious optimism in the banking sector.

Banking and financial services

Preparing to face the storms

ALTHOUGH some of the pressures on US financial institutions have inevitably crept across the 49th parallel, there is cautious optimism that the Canadian banking system is better placed to weather the storms.

"There are going to be shocks, but I don't think there are going to be systemic shocks," says Mr Michael Mackenzie, Canada's superintendent of financial institutions.

He notes, however, that the strength of the system will not really be tested "until the heavy weather sets in and starts rocking boats." As in the US, the main area of concern is real estate, especially in the industrial heartland of southern Ontario where prices of houses, condominiums, office blocks and vacant land are coming down fast from the peaks of 1987-88.

Canada's six big banks between them have an exposure of about C$130bn to real estate, of which C$95bn is in residential mortgages.

Mr Terry Shaunessy, director of research at Merrill Lynch Canada, takes a more pessimistic view of the banking system than Mr Mackenzie.

Mr Shaunessy estimates that, excluding provisions for troubled Third World loans, the banks' reserves are equal to only 4 per cent of their exposure to commercial real estate and leveraged buyouts.

Another worry for the banks is the forest products industry, which is reeling from low prices and a series of strikes. The banks' financial performance has so far been mixed. The two biggest, Royal Bank of Canada and Canadian Imperial Bank of Commerce, have been relatively unscarred.

But Bank of Nova Scotia, Toronto-Dominion and National Bank of Canada are paying a significant price for narrowing interest-rate margins and past lending mistakes.

National more than doubled its loan loss provisions in the third quarter and will take a similar knock in the fourth to write off an C$80m loan to Mr Robert Campeau, the troubled real estate and retailing entrepreneur.

National estimates that its loan losses this year will be C$246m, which is C$100m more than it expected earlier in the year. The office of the superintendent of financial institutions (OSFI) has sent one of its teams of senior retired bankers to review National's situation.

According to Mr Mackenzie, "we're comfortable with its portfolio."

In other parts of the financial services industry, Central Capital, holding company for a diverse stable of interests including a sizeable trust company, is in the midst of a sweeping restructuring after biting off more than it could chew in acquisitions and loans during the past three years.

Royal Trust's share price has sagged by more than a third in recent months, reflecting investors' concerns about its links to the unsettled merchant banking empire controlled by Toronto's Bronfman brothers, its acquisition of several savings and loan institutions on the US west coast, and problems in its international operations.

CANADA'S BIG SIX BANKS
Financial performance for the nine months to July 31, (last year in brackets).

Bank	Net income in C$m.	Assets on July 31, C$bn.
Royal Bank of Canada	759.3 (723.9)	124.0 (114.9)
Canadian Imperial Bank of Commerce	606.1 (576.7)	111.1 (100.0)
Bank of Nova Scotia	401.6 (463.6)	85.7 (80.3)
Bank of Montreal	378.3 (340.6)	82.8 (80.3)
Toronto-Dominion Bank	470.4 (327.4)	67.6 (63.2)
National Bank of Canada	153.1 (208.7)	36.9 (33.2)

Source: FT, Toronto

One important point in the Canadian banking system's favour is that regulatory controls have been greatly tightened since the trauma of 1985 when a total of five banks disappeared.

Mr Mackenzie, whose office was strengthened after the rash of problems in the mid-80s, says OSFI now examines banks' books more frequently and more closely, and co-ordinates its work more closely with the Canada Deposit Insurance Corporation and with the provincial authorities which have jurisdiction over some trust and insurance companies.

Thanks to the reforms of the past few years, regulation of Canada's financial industry is now more centralised than in many other countries. OSFI keeps an eye on all federally regulated banks, trust companies, insurers and a number of more specialised institutions. (Securities firms are still regulated by provincial securities commissions.) OSFI has set up auditors' advisory committees for each sector of the financial services industry.

A joint task force of OSFI, the CDIC and the Ontario Government has been created to examine financial institutions' real estate exposures.

Mr Mackenzie is confident that the banks themselves have learned a lot from the 1985 experience and from their own problems in the 1981-82 recession. He points, for instance, to stronger boards of directors and closer co-operation with auditors.

Ms Helen Sinclair, president of the Canadian Bankers Association, adds that "we're feeling a little bit vindicated after earlier criticism about our conservatism."

Driven by the liabilities rather than the assets side of their balance sheets, most of the insurance companies are burdened by fewer problem loans than the banks. A handful, however, do have a worrying exposure to the teetering US real estate market.

More than a dozen life assurers have acquired trust companies, which specialise in home mortgages, short-term deposits, and fiduciary services such as estates administration.

Life assurers, banks and trusts will be able to broaden their horizons further under proposals for regulatory reform published by the federal government at the end of September. The new rules, which Ottawa hopes will become law within a year or so, will significantly narrow the remaining gaps between the traditional four pillars of the Canadian financial services industry (banks, trusts, insurance companies and securities dealers).

Banks will be allowed to acquire insurance companies and trusts, while trusts and insurance companies will be able to acquire each other.

Existing curbs on trust companies' commercial and consumer lending will be lifted, transforming them into banks in all but name. Widely-held foreign financial institutions, such as mutual life insurance companies, will be allowed to set up banks in Canada.

Bernard Simon

The Goods and Services Tax

A controversial initiative

OFFICIALLY called the Goods and Services Tax, but nicknamed the Gouge and Screw Tax, the GST to be imposed next January marks Canada's most significant and also most controversial tax initiative in almost two decades.

The 7 per cent GST, which is closely modelled on New Zealand's value-added tax, will be imposed (with some notable exceptions) on all goods and services, giving the federal government a potent new instrument of indirect taxation.

It has unleashed political storms on several fronts. Although enabling legislation has already been passed by the House of Commons, the opposition Liberal party is using a variety of delaying tactics to stall passage of the bill in the non-elected Senate.

Federal and provincial governments have been at loggerheads over administration of the tax, particularly its harmonisation with the retail sales taxes collected by the provinces.

Trade unions are demanding higher wages to protect their members from the inflationary impact of the GST. And of course, many consumers – who already carry the heaviest burden of personal income taxes of any major industrial country – simply don't want to pay another tax.

The GST gets much of the blame for the Mulroney government's sagging popularity, though the government hopes that voters' will have stopped complaining by the time the next election comes around.

The GST marks the second phase of the Mulroney government's tax reforms. In the first stage, implemented in 1987, personal and corporate income tax bases were broadened, while rates were lowered. (Some of these benefits have already been eroded however, by surtaxes on large companies and high-income individuals, and by higher provincial tax rates.)

Assuming the GST is implemented as planned on January 1 or shortly thereafter, it will replace a 13.5 per cent manufacturers sales tax (MST), which was difficult to administer and put an unfair burden on domestic industry and exporters.

The new tax has the technical advantage (but political drawback) of being a more visible and more broad-based source of income than the MST. It will be charged by all businesses, including retailers, on their domestic sales.

To ensure that only added value is taxed, vendors can claim a credit for any GST paid on their inputs. Exceptions to the GST will be either tax-free (zero-rated) or tax-exempt. In the case of tax-free goods, no GST is payable, and vendors will be able to claim their full input tax credits.

Tax-exempt goods will also be free of tax, but no credits can be claimed. The three main tax-free categories are basic groceries, medicines and medical devices.

The definition of basic grocery has led to much head-scratching, and there have inevitably been some anomalies. Biscuits and muffins for instance, have been classified as tax-free, but the full 7 per cent GST will apply to yogurt.

Tax-exempt goods include financial services (with the notable exception of leasing), most education services, residential rents, health and dental services and daycare. Special arrangements apply to several groups.

To ease the burden of the GST on the poor, people with 1991 incomes below C$24,800 can claim a tax credit of C$190 per adult and C$100 per child. The credit will be reduced by C$5 for every C$100 of income above the threshold.

Many people worry that the tax will not remain at 7 per cent

Small businesses with annual sales of less than C$30,000 may opt out of the system, neither paying tax nor being able to claim tax credits on their purchases. A 100 per cent capital cost write-off will be available to any business to offset the expense of upgrading electronic point-of-sale or inventory-control systems prior to 1993. Municipalities, universities, schools and hospitals will receive a partial rebate of tax paid on their purchases. To ease administration of the new tax, Ottawa has been eager to combine the GST with the retail sales taxes which are already levied by all the provinces, except Alberta.

Provincial governments have balked, fearing that they would lose control over one of their chief fiscal instruments, while also becoming the butt of public anger against the GST.

The federal government achieved an important breakthrough in July when Quebec agreed to transform its 9 per cent sales tax into a value-added system, and combine collection with the GST.

Mr David Perry, senior researcher at the Canadian Tax Foundation, predicts that other provinces will eventually come on board, but that they will demand in return wider discretion in setting provincial personal and corporate income tax rates.

At present, the provinces must weave their income taxes around the basic rates set by Ottawa. Even if the provinces do co-operate on the GST, businesses face some compliance headaches. Mr Perry cites the example of a salesman who takes a trip with stops in Vancouver, Edmonton, Regina and Toronto, each of them in a different province with different sales tax rates. Determining the correct level of input credits which the business can claim on the salesman's expenses could be a nightmare.

For all its flaws and current unpopularity among consumers, the GST has been widely welcomed by business as a long-overdue step towards a fairer, more competitive tax system. The one universal concern is that the rate may not stay at 7 per cent for long as the politicians of Ottawa – of whatever stripe – succumb to the temptation of milking a very fat revenue cow.

Bernard Simon

GOODS AND SERVICES TAX
Exemptions and zero-rated supplies

	TAX-EXEMPT (sales exempt but taxable on inputs)	ZERO-RATED (no tax on sales or inputs)
Conceptual		
Exports		■
Interest, dividends, taxes, wages	□	
Practical, social		
Educational services	■	
Residential rents	■	
Very small businesses	■	
Most supplies by charities	■	
Financial services	■	
Used housing	■	
Legal aid	■	
Prescriptions		■
Health services	■	
Medical devices		■
Political, social		
Agricultural/fish		■
Basic food		■
Day care	■	

□ Untaxed status for these items is a conceptual presumption. No input tax credits are available to providers of these "supplies."
Source: Price Waterhouse

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Let's keep things in perspective.

We're not having a record year.

We're not even having the best year in our history. (Who is?)

But we're certainly not having our worst year.

We're beavering away, trimming a little here, putting on muscle there.

We're still one of the biggest and most diversified companies in Canada.

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Take a look at the prospects for our products.

Oil and gas; improving, may well gush.

Transportation; clear road, rail, and sea ahead.

Forest products; bit pulpy at present.

Waste; growing all the time.

Hotels; booking nicely, with room to boom.

Communications; a longer fuse, but lit and running.

And all this, we might add, is being done with ecology and conservation in mind.

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We're making a profit. It's not as much as we'd like, nor as much as we'll make in future.

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MONTREAL · LONDON

Strong reform call in Western Canada

Feelings run high

SINCE the 1870s, five political reform movements have emerged from Western Canada, to voice the area's perennial feeling of being ignored by the federal government. Most of these movements have faded ingloriously into the sunset, but the latest, the Reform Party, is giving Ottawa politicians more headaches than in the past.

The Reform Party's message, tinged with conservative populism, is about national rebirth. Coming as it does in the midst of Canada's current national turbulence, this idea appears to be falling on fertile ground. Since its founding in 1987, the party has steadily gained adherents and admirers. It will double its membership this year to more than 60,000.

In a recent Gallup poll, Reform was favoured by 7 per cent of all Canadians (almost half the backing for the ruling Progressive Conservative party). Gallup credited it with 23 per cent in the prairie provinces and 20 per cent in British Columbia.

Mr Preston Manning, the Reform leader, says, "the old Canada is dying and a new Canada is being born." In Mr Manning's mind, new Canada will respond more to Western provincial interests, undo the welfare state and cater no longer to French Quebec's demands.

In the massive swathe of territory that runs from Ontario to the Pacific, Mr Manning's sentiments are widely shared. Westerners are fed up with being economically and politically snubbed by Ottawa and they resent the money spent to impose bilingualism nationally although French alone reigns in Quebec.

One area of central Canada's favouritism which arouses frequent controversy is federal government procurement. The prairie provinces of Manitoba, Saskatchewan and Alberta won just 15.7 per cent of Government contracts during the 1989-1990 fiscal year. British Columbia accounted for only another 5 per cent. Ontario held the lion's share with 48.2 per cent and Quebec claimed 20.4 per cent. Another source of annoyance is taxes.

Alberta, the home of Canada's energy industry, has made huge contributions to the federal treasury in the form of energy taxes, but feels it has had little federal Government attention in return. It has thus become an epicentre of a popular tax revolt against the 7 per cent goods and services tax, which Albertans say they will refuse to pay. Although the Liberal party has opposed the tax in the Senate, this seems a political gambit to take advantage of the GST's unpopularity.

The Alberta oil and gas industry, which before the Iraq-Kuwait crisis had been suffering from a slump in energy prices, has subsequently perked up. However, Albertans have seen price swings come and go and are not jumping quickly to invest or spend.

Mr Dan MacNamara, vice president of the Canadian Petroleum Association in Calgary, says "you don't make a project based on the war." Conventional oil reserves in Western Canada are in decline. Reserves in producing fields declined 4.1 per cent in 1989 to 4.7bn barrels, following a 34.7 per cent drop in drilling activity last year.

Report by
BARBARA DURR

Unconventional reserves, such as those in the Arctic, could mean new investment but they cannot be economically tapped without a sustained high oil price. Although C$4bn worth of energy properties from 40 companies in Alberta were on offer until last June, only about half have been sold, according to Mr Frank Sayer, of Sayer Securities in Calgary. Uncertainty about the market and the value of properties has plagued sales. While oil prices have risen 50-100 per cent, oil company share prices have risen only 5-10 per cent.

These share increases came as the Toronto Stock Exchange overall fell by about the same amount. Gas pipeline projects currently under consideration could bring a boom to Alberta, but for the moment the province is cautious. Consumer spending is expected to rise moderately. Low world prices for a bumper grain crop are more deeply affecting Manitoba and Saskatchewan, which are less diversified than Alberta.

Having managed to recover from the 1988 drought, the prairie provinces are now facing a dramatic drop of 44 per cent in farmer income compared with 1989. Net farm income in Saskatchewan alone will fall 68 per cent, according to Prairie Pools, the combined organisation of farmer co-operative pools in the three prairie provinces.

Production growth in Saskatchewan will rise to 5 per cent this year, but Mr Tim Whitehead, a regional economist with the Canadian Imperial Bank of Commerce, called the province's income situation "just dreadful."

Manitoba's difficulties on the grain trade will be slightly offset by gains in livestock production which will be helped by lower grain prices – and some other economic diversification. But net emigration, modest real wage growth and slow expansion of employment will keep consumer spending and construction down.

If there is a bright spot in the West it is British Columbia. For the last three years, BC has outpaced the rest of Canada in economic growth and 1990 is expected to continue the trend. Although the province's economy is subject to swings in the prices of its main commodities – minerals and forestry products – it has drawn its economic dynamism from an enormous influx of immigrants.

From 1987-1989, 300,000 people migrated either from other parts of Canada or abroad to British Columbia.

BC's magnetic force is expected to continue to draw immigrants through 1991. Such strong population growth has boosted the services sector in particular. Overall employment growth is expected to run 2.7 per cent this year after a 5.7 per cent increase in 1989.

Federal government procurement

	Contracts	$m value	% of total
Newfoundland	8,014	157.9	2.2
PEI	1,798	23.9	0.3
Nova Scotia	228,178	366.4	5.0
New Brunswick	8,534	203.3	2.8
Quebec	46,792	1,488.2	20.4
Ontario	112,668	3,519.4	48.2
Manitoba	8,826	353.4	4.8
Saskatchewan	4,735	84.9	1.2
Alberta	17,148	705.9	9.7
British Columbia	22,450	364.9	5.0
Yukon and NWT	1,430	28.2	0.4

Source: Government Consultants International

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A new, clearly defined political relationship is sought with Ottawa

Quebec wants more autonomy

THERE HAS been an important change in Quebec public opinion this summer. Most people in the French-speaking province now believe it must negotiate a new relationship with 'English Canada.'

The change follows the collapse in June of the Meech Lake Accord. Quebec's French-speakers, 80 per cent of the province's 6.5m inhabitants, had regarded the Accord as a test of English Canada's goodwill. It recognised Quebec as a "distinct society" and offered other concessions over autonomy and funding.

Quebeckers thought it a fair price for their province's assent to the constitution in 1990, and Quebec's federalist premier, Mr. Robert Bourassa, had staked a great deal on it.

But it was subsequently repudiated by English Canadians who felt that 25 years of federal concessions had already sufficiently awarded Quebec in terms of special status. Now the message from Canada's second largest province is: "They rejected our modest demands – what does English Canada want?"

In 1982, the government of the separatist Parti Québécois had rejected former prime minister Mr Pierre Trudeau's terms for signing the Canadian federal constitution, saying his "new federalism" was more centralist than the old.

There has long been a 20 per cent minority in Quebec demanding political and economic independence, a supreme National Assembly in Quebec City, a unilingual French-speaking community and ultimately a Quebec dollar.

Now there is a re-think at the centre. A big majority, perhaps 70 per cent according to opinion polls, is no longer willing to accept Canada's post war status quo and the perennial federal-Quebec dogfights over jurisdiction and money.

It wants a new, clearly defined political relationship with Ottawa which would give Quebec more autonomy while leaving the economic ties mostly undisturbed. For some this means a form of "sovereignty", a term now used with abandon throughout Canada.

The centre has found many new voices, some strident, as in the extravagant claims of the provincial Chamber of Commerce, representing smaller businesses and the outlying areas as well as Montreal. But they also include senior French-speaking business leaders such as Mr. Claude Beland, who heads the $36bn. Desjardins credit union movement, and Mr. Claude Castonguay, former senior Quebec Cabinet minister and retiring chairman of the Laurentian Group.

The centre has found new voices, some strident, says BOB GIBBENS

Until June, when the Meech Lake Accord was rebuffed by English Canada, Quebec's business community had been staunchly federalist. In the 1980 referendum on independence for Quebec, it campaigned hard for the "no" side. But business sector now feels frustrated by English Canada's refusal of what it regards as a moderate settlement. Post-Meech emotions ran high, but they have been distracted by the Mohawk crisis and Canadian Army intervention, Indian claims for broad political sovereignty, a stagnating economy and escalating oil prices.

The Parti Québécois, now in opposition and led by former Finance Minister Mr Jacques Parizeau, 60, has carefully avoided fuelling the fires, but wants an immediate referendum on independence.

Mr. Premier Bourassa, 57, re-elected in 1989, rejects outright independence. With the ending of the Mohawk crisis, his strategy is to regain control of the political arena. He must set the stage for the next provincial election in about three years and has set up a non-partisan roving Parliamentary Commission to draw up a concrete set of demands for Quebec's assent to the 1982 Constitution.

The commission is due to report early in 1991.

Though federalists will hold a majority, the commission's report will undoubtedly renew Quebec's demand for recognition as a "distinct society" and list demands for more autonomy in language and cultural affairs, immigration and possibly control of federal regional development and training funds.

The Quebec Liberal Party has also formed a committee to set up a constitutional platform for the next provincial election, to be adopted at its policy convention next May.

The Bloc Québécois, a nine-member pro-Quebec group formed by Mr. Lucien Bouchard, Mr. Mulroney's former Environment Minister, has had a strong initial impact through the province, unnerving the post-Meech Lake Conservatives. But it is not clear whether Mr. Bouchard, 52, can maintain momentum for his recipe for separation.

On the economic front, Quebec cannot escape the deterioration in North America as a whole. In the 1982-83 recession, its manufacturing sector suffered a terrible blow. The recovery that peaked in 1988 brought relative social peace, enhancing business's faith in its ability to create wealth.

But that consensus broke down in 1989-90. Quebec has a low birth rate, an ageing population and steadily rising health costs accounting for 30 per cent of its C$35bn budget.

A shadow cast over Altantic provinces

CONSTITUTIONAL squabbles and a slackening economy are casting a shadow over Atlantic Canada. While public reaction has so far been muted, politicians and pundits in the four eastern provinces (Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island) have pegged the death of the Meech Lake constitutional accord last June as the most significant event of the past year.

Now that Quebec seems set to press for looser links within Confederation, the four provinces to the east are worried that forthcoming changes will threaten the generous transfer payments they receive from the rest of Canada.

"The fear is simply this: Quebec comes up with a new form of association with Canada and it makes it more difficult for this region to prosper. You're back to the scenario that [this region] is the Bangladesh of Canada," says political scientist Agar Adamson.

An independent economic think-tank reinforced that scenario in a recent study examining the impact Quebec's separatism would have on Atlantic Canada.

The Halifax-based Atlantic Provinces Economic Council predicted cuts in living standards for the region as other provinces become more reluctant to bankroll their poorer cousins once Quebec left.

The four Atlantic provinces are handicapped by a dearth of powerful voices in Ottawa to represent their interests. International Trade Minister John Crosbie from Newfoundland, one of the most powerful members of the federal cabinet, is expected to leave political life within the next two years.

The remaining high profile politicians all face obstacles in trying to get the country's attention. Prince Edward Island Premier Joe Ghiz is hamstrung by the small population and miniscule economic clout of his province.

Nova Scotia's governing Progressive Conservative party is temporarily leaderless until a replacement is found for long-serving Premier John Buchanan, who left office under a cloud in September to take up a seat in the federal Senate.

Both Newfoundland Premier Clyde Wells and New Brunswick leader Frank McKenna earned Quebec's animosity for their opposition to the Meech Lake Accord.

McKenna's low standing in Quebec hasn't prevented him from trying to direct the national agenda. In mid-September he called for renewed efforts to create a constitutional agreement that Quebec would support.

He also launched a call for a Maritime economic union. The second proposal calls for forming a single integrated economic unit made up of the all the Atlantic Provinces except Newfoundland.

While McKenna's second proposal is modeled after post-1992 Europe, the idea of a Maritime union is as old as Canada. But Philippe Doucet of New Brunswick's University of Moncton, says McKenna will not win much public support.

Doucet says Atlantic Canadians are tired of endless debates on issues like the constitution. Language tensions are already simmering in New Brunswick, Canada's only officially bilingual province.

Further pressure to meet Quebec's aspirations could anger the growing Confederation of Regions Party, a political rump group opposed to bilingualism. The Maritime union idea is unlikely to take hold unless it is forced on the public by an impending crisis.

"Unless there is some sort of catastrophic pressure, I can't see anything happening that will force us into regions," Susan McCorquodale of Newfoundland's Memorial University says.

That sense of crisis has not yet materialised. An August survey by Halifax-based Corporate Research Associates found 58 per cent of Atlantic Canadians doubt Quebec will separate. Thirty-eight per cent thought separation likely.

More than half of the 1,500 people surveyed thought Quebec's departure would result in no change or an improvement in living standards in the region. Another 37 per cent thought standards would drop.

Business groups, however, welcome the idea of a Maritime economic union. APEC president Tim O'Neill says greater co-operation makes sense in a global environment of falling trade barriers. The immediate threat to the region is the recession now gripping the country as a whole.

The four provinces need more powerful voices in Ottawa, says MICHAEL REDMOND

A shrinkage in federal government revenues will likely lead to cuts in transfer payments to the provinces. Despite being the poorest province in Canada, Newfoundland may escape the recession relatively unscarred.

While a slowdown in resource industries is a threat, it is offset by construction of the massive Hibernia offshore oil project.

In mid-September the province, Ottawa, and a consortium of oil companies finally put in motion development of Hibernia. The $5.2bn project will see 10,000 jobs created in the province over the next six years.

APEC's Tim O'Neill says Hibernia's spillover effects will help all four provinces. But it will not be enough to pull Nova Scotia clear of a recession.

The province's large fishing industry continues to suffer from cuts in catch quotas, which have led to numerous plant closures and layoffs in rural areas.

Nova Scotia's exports and manufacturing sector have already started slowing in line with national trends. If prices for pulp and paper and metals slip further, New Brunswick will also fall into recession, APEC officials say.

Enjoyment in a cold climate

IN DECEMBER many Canadians' thoughts turn to "heading south" for the sunspots of Florida, the Caribbean and California. Those left in the Frozen North have little choice but to make the best of the frigid temperatures, blizzards, ice and slush that are the hallmarks of a Canadian winter.

Surprisingly, though, it is possible with little of effort not only to survive winter in Canada but to enjoy it. The secret – for both Canadians and their visitors – is to make that extra effort.

The short days and long nights from December to March can be a bore for the ill-prepared or unadventurous. Shovelling snow from the driveway, window-shopping or sitting morosely in some high-rise hotel room can all too easily dominate the winter routine. It is no co-incidence that those who complain loudest about winter are often the "couch potatoes" unable to spot any opportunities for fun beyond their television sets.

Setting foot outdoors does have its hazards. Frostbite is a risk for anyone venturing out without warm gloves and boots. Icy roads and pavements are a constant hazard for both drivers and pedestrians. On the prairies, desperate people even commit suicide in January or February by simply walking outside and taking off their clothes in the minus 40 deg C cold.

But Canadians have learnt to adjust to their harsh climate to the point where winter can be as full of outdoor fun as any of the other seasons. Most of the main Canadian cities are within an hour or two drive from downhill and cross-country ski-ing.

Whistler, about two hours' drive north of Vancouver, has become especially popular among downhill skiers in recent years. The ski-ing and the scenery around the Rockies resorts of Banff and Lake Louise are on a par with anything North America has to offer.

An invitation to one of the elegant privately-owned ski clubs north of Toronto also guarantees an enjoyable Saturday or Sunday.

Many country inns have excellent cross-country ski trails. For the less energetic, their facilities also usually include sleigh rides, saunas, indoor swimming pools and, of course, a superb table. Among the popular inns are Benmiller Inn and Deerhurst near Toronto, Auberge North Hatley in the Eastern Townships of Quebec, and Le Chantecler and La Sapinière in the Laurentians north of Montreal.

For those looking for something closer to home or hotel, there is cross-country ski-ing in city parks and along golf courses; tobogganing on just about any slope (even the inclines at the side of raised highways); and, of course, ice skating. Toronto alone has 170 skating rinks, many of which do double-duty as tennis courts during the summer. One – which unfortunately, is often over-crowded – is located right next to the city hall opposite the Sheraton Hotel.

The less-energetic might consider an after-dinner drive around some of the wealthier city neighbourhoods in the three or four weeks before Christmas, when many Canadians decorate the outside of their homes with coloured lights. Some of the displays are spectacular, especially after a fresh snowfall. A foreign visitor planning a winter trip to Canada needs to make some basic preparations.

Winter tips for business visitors by BERNARD SIMON

As a general guide, cities on the prairies (Winnipeg and Edmonton, for instance) are coldest with the temperature regularly falling below minus 30 deg C. Next are Montreal and Ottawa, which tend to have more snow than the prairie cities.

Except for a few ultra-cold snaps, the temperature in Toronto is normally just below freezing, and weeks can pass without any snow on the ground. In Vancouver, one is more likely to strike rain than snow, even in January.

Suitable clothing is essential, including a heavy overcoat, a scarf, gloves and a hat. Overshoes (commonly called rubbers) or boots are a must to give a better grip on roads and pavements, and to prevent damage to shoes from the salt which is liberally spread over city streets after a snowfall. Winter underwear is not necessary for a business trip, as all office buildings and shops are well (sometimes too well) heated.

For those wanting to take part in winter sports, skis and skates can be rented. Anyone not accustomed to driving in wintry conditions should rely as far as possible on public transport or taxis, rather than hire a car.

If you must drive, make sure the car has a plentiful supply of windscreen cleaner, and a scraper to clear the windows of ice and snow. Above all, drive carefully and slowly.

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FINANCIAL TIMES SURVEY

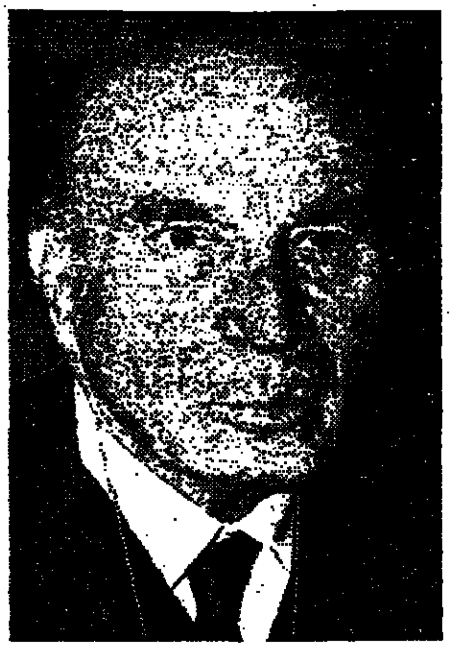
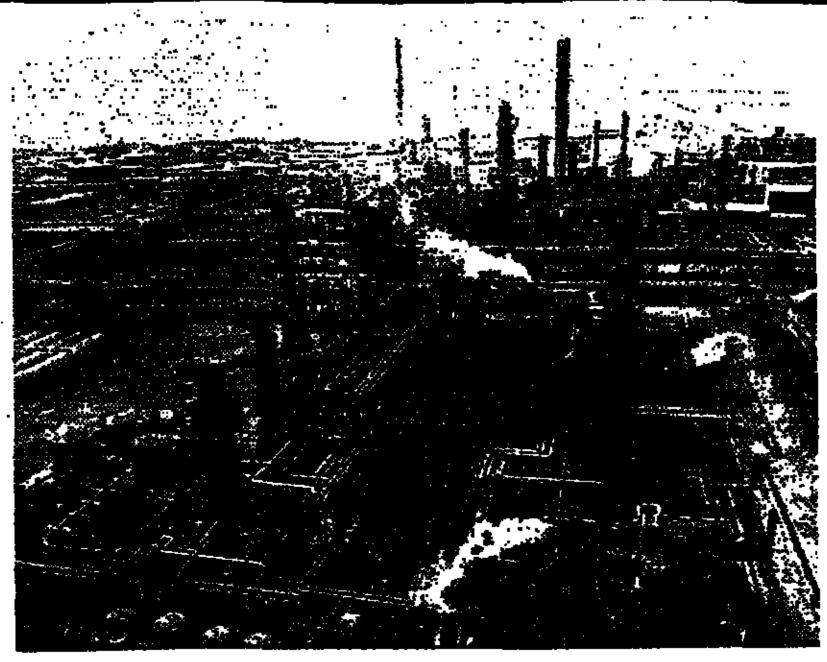
ITALIAN INDUSTRY

SECTION III

Tuesday October 23 1990

In spite of impressive economic and industrial growth made in Italy during the 1980s, the legacy of the political negligence of that decade now has to be faced. The potential effects of the Gulf crisis are adding to a growing mood of anxiety, writes **John Wyles**

Roman skies cloud over


Prime minister Giulio Andreotti (right) and Guido Carli (left), finance minister: widening the gap between action and rhetoric

IN THIS SURVEY

- *Editorial Production: Sarah Murray*

THERE IS a fluttering in the Italian air which can only be described as the sound of a few chickens coming home to roost. The 1980s were by no means a wasted decade, given the robustness of Italy's industrial and economic recovery, but the political errors and lost opportunities of those years are beginning to sour a mood in industry which had already turned sombre before it needed to take account of the effects of the Gulf crisis.

Italian moods, like the Roman sky, can swing from sunshine to rain in very quick order. But the decline of bright optimism about the industrial future has been building up for some time, in parallel with a slowing of the economy and an obviously less cheerful outlook for profits.

The anxieties focus most strongly on competition and political interference in the public sector, and they have adopted as their emblems this year's extraordinary struggle for control of the Enimont public-private joint venture and Fiat's recent exchange of shares and assets with CGE of France.

The first has begun to rival Bismarck's celebrated Schleswig-Holstein question for obscure complication. It is being marked down, however, as a failed exercise in public-private collaboration more because of a clash of business cultures than of personalities. Such cultural conflict emerges most clearly, as in the Enimont case, when the changing conditions of the market require swift responses and job losses.

ENI, the state energy company, was politically unable this year to respond to the urgings of its partner, Montedison, to reconsider their previously agreed business strategy, because Italian politicians cannot be led that quickly into creating unemployment.

Nor will they easily bend the knee to the urgings of Montedison's president Mr Raul Gardini. For the Italian political class is above all proprietorial and one of its justifications for controlling about one third of national output is that the public sector acts a countervailing power to the private sector grandees, Agnelli, De Benedetti, Pirelli, Gardini, Berlusconi et al.

Herein lies the basic weakness of Italia Inc whose ideologues in both the government and public industry propose a consolidation of national industrial power so as to create units of a size to compete in world markets. A little flexibility and imagination, and above all political freedom, would have enabled IRI, the state holding company, to match most, if not all, of the components of Fiat's deal with CGE. But the political omens were hostile to the necessary reshuffling of assets between public and private and the opportunity was lost.

Much has been made in Italy about the emerging Italian-French axis which the Fiat-CGE deal highlights. IFIL, the Fiat Group's financial holding company, is already the major operator in the Italian food industry through its alliance with BSN-Danone while Mr Carlo De Benedetti also has extensive French interests through his CERUS holding company.

Although these links may ultimately represent a strategy to counter German industrial power, the exchanges of shareholdings are also in Fiat's case a defensive manoeuvre against unfriendly takeovers in partnership with the product of a compatible business culture. Mr De Benedetti maintains that apart from the structural obstacles to making acquisitions in Germany, there remains the simple fact that it is difficult to persuade good German managers to work for Italian companies.

The Fiat-CGE deal certainly displeased some top politicians to the extent that Confindustria, the industrialists organisation, even anticipates some possible retaliation. It is unlikely, however, to provoke a serious political rethink about privatisation or relaxing political controls on the public sector because these are essential to maintaining the foundations upon which the Italian system of "partitocracy" (party rule) is based.

The system will cling to the notion that the public sector is needed as a countervailing power to the private, although it has been emptied of serious content by the recent passage – after three years of debate and two of legislative travail – of anti-trust legislation.

Objectively, this should provide the framework of rules for regulating the exercise and growth of private sector industrial and economic power, but only fundamental reforms of the political system designed to transfer power and control to the ordinary citizen can begin to roll back the frontiers of party control.

No such reform can be expected under the present coalition led by Mr Giulio Andreotti whose policies are becoming the despair of the private sector and also of many public managers. It is not that Mr Andreotti's government is so much worse than many of its predecessors, nor that it is unique in failing to find convincing responses to challenges such as the public sector deficit and woefully uncompetitive public services.

The problem is that Mr Andreotti and his leading ministers, largely Christian Democrat but also some Socialists, have seriously widened the gap in Italy between action and rhetoric on so many of these matters.

It is also that they do not seem to care; only this month they have promoted to the presidency of EFIM, the smallest industrial public holding company whose debts of more than L5,000bn (£2,199.73m) exceed its annual turnover, a Socialist who was vice-president of the group during its recent disastrous deterioration.

Such a move pains and troubles many industrialists, both public and private because of a sense that time is running out: time to find a lasting solution to public deficits before the markets deem that they are incompatible with membership of the European Monetary System and participation in the move to European Monetary Union; time to give public industry and services more freedom to manage and to price their services.

Time to create a railway system which can move people and goods with competitive efficiencies; time to launch a policy of diversified energy supply to soften the savaging effects of a \$40 or \$60 or \$80 per barrel energy price; time to reform the tax structure so that private companies do not carry greater burdens than their counterparts in the EC: time, in sum, to address the structural handicaps which may well seriously impede Italian growth in the opening of global industrial and financial markets in the 1990s.

"I think we are heading for five years of crisis," says one observer at Confindustria.

Tempers are running high and language is running low in the Italian industrialists' organisation partly out of a sense of frustration. The government, it is said, does not understand and does not want to understand the private sector and the market.

The Italian Catholic tradition has always been somewhat weak on such matters. Mr Andreotti understands above all politics, power and maximising consensus. These are the principles which inform all of his government's important policies, from the budget to industrial organisation.

Now in his sixth term as prime minister, Mr Andreotti's style is to warn that the budget deficit will bring the nation to collapse and then to produce proposals for reducing it which are based on unsound numbers, a minimum of reform and of no threat to any particular interest group.

The 1991 budget proposal may seem to be a sad commentary on the effectiveness of Mr Guido Carli, the treasury minister and former governor of the Bank of Italy, whose appointment had the result of giving the government a cloak of financial rectitude.

In reality, Italian treasury ministers suffer from the fact that budgetary responsibilities are divided between three ministries, a device which has ensured that financial rectitude does not prevail.

The only other significant voice arguing for a fundamental attack on budget deficits and more coherent industrial policies is that of Mr Adolfo Battaglia, the industry minister. But he comes from the small Republican Party (3.7 per cent of the vote in 1987) and consequently is rather short on clout.

Mr Battaglia fights a lonely battle for more liberal economic policies, more privatisation and a coherent approach to sustaining the spinal column of the Italian economy, small and medium-sized businesses. But he is no match for Mr Andreotti who knows little about industry except that it can be a good source of funds, and his genial henchman, Mr Paolo Cirino Pomicino, minister for the budget.

The primacy of politics in the Andreotti administration means surviving until the next general election (almost certainly next year).

Continued on Page 2

The Gulf crisis has plunged a sinking economic confidence lower still, writes **John Wyles**

Brows of industrialists begin to furrow

THE FALL-OUT from the Gulf crisis is giving the Italian economy a rather unpleasant attack of toothache and is uncertain whether the pain will dissolve naturally with time or whether specialist treatment is needed.

Early optimism that the crisis might be short-lived and that the oil price might settle at a level no higher than $25 next year is now giving way to darker fears and some sharp regrets.

With the price hovering around $40 and authoritative estimates emerging that next year's average may not be a great deal less if there is a war in the Gulf, there is a growing anxiety about the consequent impact on domestic inflation, the trade balance and the exchange rate.

As brows furrow, there is a predictable tendency among industrialists and some politicians to regret the choice made by referendum in 1987 to forego the employment of nuclear energy as a major source of electricity. Despite the difficulties caused by previous oil crises, Italy remains dependent on imports for 82 per cent of its energy requirements, even though its use of energy is more efficient than it was a decade ago.

The conundrum facing all forecasters centres on the judgement about the impact of the "Gulf factor" on an economy that was already showing some signs of slowing. For the first time for many years, the output in the second quarter fell slightly, by 0.2 per cent, compared to the first quarter with industrial production sliding by 2.8 per cent.

Textiles, engineering and transport were foremost in registering falls in production. By the summer slow, or even negative, growth prospects in various markets at home and abroad were causing some companies to announce temporary lay offs.

Foremost among these has been Fiat Auto which is laying off 30,000 workers for periods this autumn because of a fall in market share in Italy and slackening demand in Europe. Such developments, alongside the Gulf crisis, have helped to plunge the index which measures confidence in the economy among Italian families to one of the lowest levels in recent years.

A year ago, the official government expectation was of a 3.4 per cent growth rate this year. By May this had been revised down to 3 per cent and was further shaved to 2.9 per cent when the government presented its 1991 budget proposals last month. This is still more optimistic than most private forecasts, although very few of these have yet taken account of the impact of a higher oil price.

However, the research department at Confindustria has been quick off the mark with forecasts based averages of $25 and $35 per barrel. The former price yields a growth rate this year of 2.4 per cent and of 2.3 per cent next year. The higher oil price's effect is more dramatic, cutting next year's rise in gross domestic product to a very modest 1.6 per cent.

Italy leans heavily on imports for its energy

The balance of payments deficit on the current account would rise from 1.2 per cent in 1989 to 1.3 per cent this year on $25 and 1.6 per cent on $35 per barrel. The same deficits next year would be 1.7 per cent or 2.4 per cent of gross domestic product.

Inflation, meanwhile, would climb from 6 per cent last year to 6.1 or 6.4 ($35) per cent this year and to 6.6 or 7.3 per cent ($35) next year. Both next year's estimates are a far cry from the government's inflation objective of 5 per cent, which assumes a $25 per barrel oil price.

But there was, as the Americans say, "an awful lot of air" in the numbers which the government pulled out of its hat when presenting the 1991 budget last month. So loose has been the control of spending on health and pensions that government forecasting of budget deficits in Italy is more akin to the art of the water diviner. The past three years have been marked by supplementary budgets to bring the fiscal process back on course, but even then these failed to achieve the original deficit targets.

As prime minister Mr Giulio Andreotti, and Mr Guido Carli, the treasury minister, have been repeatedly stressing, the political and economic arguments for capping Italy's spiralling debt are unanswerable.

The deterioration since 1986 has been severe, maintaining Italian interest rates well above European averages, crowding out the private sector in the process, and ultimately threatening Italian participation in the move towards economic and monetary union.

In the past four years, the volume of outstanding debt has soared from L768,091bn or 85.6 per cent of GDP, to an estimated L1,290,000bn or 99.47bn of GDP this year. Despite repeated efforts – according to some experts not as skilfully directed as they might have been – the authorities have failed to extend the average maturity of the debt which now stands at around two and a half years.

Deterioration since 1986 has been severe

Quite deliberately, and with characteristic Italian masochism, the Bank of Italy and the Treasury have reduced the room for economic manoeuvre by putting the lira into the narrow 2.25 per cent margin of fluctuation band of the EC's Exchange Rate Mechanism at the start of the year.

Given that interest rates are the only tool available both for debt funding and managing the lira it is not difficult to foresee potential policy conflicts. For example, weakness in the lira induced by rising oil prices possibly requiring higher interest rates, which in turn push up the cost of debt servicing when it has already reached around 90 per cent of this year's total projected deficit of around L140,000bn.

Alternatively, moves to raise domestic interest rates to guarantee funding could serve to strengthen the lira excessively and to complicate management of the exchange rate within the ERM's margins.

The government's medium term economic plan aims to begin reducing the volume of outstanding debt as a percentage of GDP from 1993. To this end, next year's budget is of primary importance because it aims for the first time in well over a decade to produce a surplus – of L8,100bn – on current spending net of interest payments. Ministers hope that this prospect will reassure the markets to the extent that interest rates, and therefore interest costs, will fall during the course of next year.

But one cannot escape the feeling that too much is being attempted "on a wing and a prayer". A feeling apparently shared by Mr Carlo Azeglio Ciampi, governor of the Bank of Italy, who recently told a parliamentary committee that it was virtually impossible to know whether some of the government's proposals would actually yield the amounts indicated.

The trend budget deficit for 1991, says the government, is around L180,000bn, and it is postulating spending cuts of L30,000bn, extra revenues of L19,000bn, the sale of L5,500bn of state assets and a L3,000bn saving on interest costs.

However, some spending cuts are merely postponements of disbursements and projected revenue increases are partly based on optimistic outcomes for a further clampdown on evasion and an optional facility for companies to revalue their assets.

Interest savings, meanwhile, are very much hostage to developments in international interest rates which, in turn will be determined by the Gulf crisis and policies in Japan, Germany and the US. Some economists doubt that the government will save more than half of the L48,000bn it is seeking.

Italy cannot afford to miss its budget targets for 1991. But uncertainty in the international economy and doubts as to whether it is seriously addressing the underlying causes of its budgetary imbalances suggest that tougher additional measures will be needed next year.

TEXTILES: BIELLA

Region acquires renown abroad

THE DAYS are long gone when, as legend has it, the wool textile manufacturers of Biella used to stamp "Made in England" on their cloth in order to win business abroad.

"As all good students, let's say that we've at least equalled our teachers," says Mr Reno Roj, the chairman of the Biella Industrial Union, which represents the region's 5,000 local companies, two thirds of which are in textiles or textile-related businesses.

Many of his colleagues in the region – which accounts for over a third of Italy's woollen textiles production and is the country's undisputed centre for top-quality mens' woollens – would go much further.

For the region's manufacturers have reached the stage where "Made in Biella" carries as much, if not greater, weight than the once-famous names of the Bradford, Huddersfield and other mills they so wanted to emulate.

Today, the Biella region accounts for 70 per cent of Italy's production of combed wool textiles, 45 per cent of its worsted spindles, 20 per cent of its woollen spindles and 22 per cent of the looms.

More materially, that translates into an unemployment rate of just 3 per cent, and the highest female employment figure in all Italy. The area has the country's sixth highest per capita income.

Biella's prominence has stemmed from a mixture of luck, enterprise and tradition. Its climate and location at the north-western edge of the country beside the Alps, have provided the right mix of humidity, clean air and plentiful water to establish a role in textiles which some date back to Roman times.

But Biella's industrial ascendancy stems from more than just canny entrepreneurs. Rather than aiming for vertical integration, the local textile industry adopted a specialised approach which remains its hallmark today.

Instead of being a source of weakness, specialisation has contributed to the region's reputation for fine goods as small family firms have devoted themselves to developing their expertise in specific stages of the production process.

"Biella has been able to offer something extra in every phase of textiles making," says Mr Enzo Vizzari, the director of the Industrial Union.

Luck has also played a part in Biella's rise to prominence. Although it is Italy's focal point for top-quality woollens, it is one of three centres in the country, with Prato and Vicenza, for the wool textiles.

The fact that Biellese manufacturers opted for combing rather than carding – the method of production used in Prato – worked to their advantage.

For while carding produces a heavier weight cloth, combing is the only way to make the lightweight woollen fabrics which have become increasingly important to designers and manufacturers around the world.

The change in fashions has put the onus on Biella's yarn makers to produce ever thinner threads capable of creating the new lightweight woollens. Moreover, yarn makers have also been obliged to come up with a wide variety of mixtures, such as wool and silk and wool and cashmere, in order to meet the market's demand for increasingly sophisticated cloths.

Fierce competition between the region's companies has undoubtedly been a key element in keeping it at the forefront of the textiles industry. For despite a brief shift towards vertical integration in the 1960s, specialisation, based on the tradition of small-to-medium-sized family companies, remans characteristic.

Bellia, the biggest of the local textiles groups, employs only 800 staff. It is followed by Zegna and Botto, with around 550 employees each. Thereafter come 13 companies with between 250 and 500 employees, and 50-odd firms with 100-250.

After that, the average size drops sharply. The vast majority of Biella's textiles firms are much smaller concerns, often employing 10-15 people. And none of its groups, irrespective of their size, is publicly-quoted.

The weavers and yarn makers which dominated the region have given birth to a variety of other, textile-related businesses.

Textiles machinery is the most prominent, with the region housing a number of the country's top names. Other firms, like Mr Roj's own Roj Electrotex, make the sophisticated electronic control processes that make the machines work.

Despite its thriving entrepreneurial spirit and obvious wealth, Biella has some problems. Most prominent at present are the those confronting many yarn producers which are facing a financial squeeze as a result of the collapse in raw wool prices.

Despite having bought dearly in previous seasons, the yarn makers have been obliged to cut their prices to levels based on the current depressed rates for raw wool. That has created a painful pincer movement that led one firm to close last year.

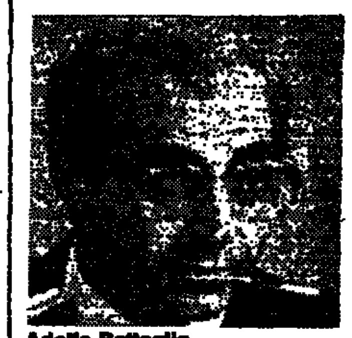
"It is only a one-off process, and yarn-makers make will make windfall profits again if raw wool prices move up again" says Mr Giorgio Frignani, chairman of the Vercelli Chamber of Commerce and a well-known yarn producer.

Biella's other problems are all longer term. Although Turin Polytechnic – one of Italy's leading centres for science and engineering – has now set up a textiles branch at the Citta degli Studi, most of Biella's youngsters still have to leave the area for their tertiary education, creating the danger of a growing skills shortage.

Whatever the short-term difficulties now being felt by the yarn makers, persuading the youngsters to stay on may be one of the region's biggest challenges in the longer term.

Haig Simonian

The mood darkens



Adolfo Battaglia

Continued from Page 1

The survival kit contains lashings of balm for placating the Christian Democrats' principal partner, Mr Bettino Craxi and his Socialists, and sustaining the Andreotti faction.

The result is a focus entirely on the short term which stokes up private sector wage demands by delivering wage increases for public employees around 40 per cent above those decreed by the government's public spending strategy, appointments to public companies and banks aiming more at political subordination that managerial professionalism, and, above all, the avoidance of conflict with powerful social groups such as the trade unions.

While one does not have to accept all of the case which Confindustria makes about a serious underlying decline in industrial competitiveness, the government has barely lent an ear to the problem. When Confindustria earlier this year rather clumsily tried to force a confrontation with the unions which would do away with the *scala mobile* system of wage indexation, there was no support and very little understanding from the government.

It intervened instead to shelve the issue until next summer and it will certainly not be addressed then if there is an election in June. If Confindustria's expectations of industrial crisis are fulfilled, then there will be a grudging political response on this and possibly broader issues of industrial organisation and ownership. If not, then it will be politics as usual in Italy.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John Wyles looks at Italy's key challenges. Below, industrial leaders give their views

Is Italy becoming less competitive?

IF ITALY were anything other than a country with proven powers of recovery, a cool hard look at the facts would suggest that its industrial sector was set to struggle in the 1990s because of declining competitivity.

On almost every front, it could be argued that the factors which have enabled the country to export its way out of troubles induced by rising oil prices in the past are either no longer adequate or are fast disappearing.

At the same time, the structural weaknesses in the balance of payments, built on large permanent deficits on the energy food and chemicals balances, have not been remedied. On the most pessimistic scenario, the result in the future could be worsening balance of payments and some shrinkage of the industrial base.

In the next few years, industrial companies will not have the facility they had in the late 1970s to cover their cost increases by frequent devaluations. This luxury began to fade from 1979 when the lira became part of the European Community's Exchange Rate Mechanism, albeit with a 6 per cent margin of fluctuation. This provided the disciplinary framework which induced labour shedding and the application of new technologies which in turn restored competitive strength in world markets.

During most of the 1980s incremental productivity gains were sufficient to compensate for relative cost disadvantages which derived both from a strengthening of the lira in real terms against both the US dollar and the German mark and also from higher increases in the cost of labour and other inputs, amounting to about 3 per cent a year more than Italy's main European partners.

There is little further scope for productivity gains from manpower reductions

All industrialists are now agreed that there is little further scope for productivity gains from manpower reductions. "Unlike at the end of the 1970s we don't have the same capacity to regain productivity through reorganisation of the factories and better labour practices," said Mr Carlo de Benedetti, the president of Olivetti.

However, according to Mr Stefano Micossi, head of research at Confindustria, the industrialists organisation, the costs differential remains and is being exacerbated by the exchange rate. In the past year, the lira has appreciated by 12 per cent in real terms against the dollar and by 20 per cent against the yen.

With the lira's entry into the narrow 2.25 per cent band of the Exchange Rate Mechanism and the European Community setting down the path to fixed exchange rates, Italian exporters can expect little or no relief from currency changes. Nor, says Mr Micossi, will incremental improvements in the application of new technologies be sufficient to compensate for the 3 per cent differential on costs with Italy's main trading partners.

In the meantime, declining competitivity is manifesting itself in many ways. Many textile companies are maintaining their export markets at a loss, and this will surely bear on 1990 profits, and Confindustria surveys are revealing similarly painful situations in other sectors.

"It is not imaginable that we can continue like this," says Mr Micossi. His analysis of trade patterns is showing a consistent decline of market share in Germany – Italy's main trading partner – while last year's relatively rosy export figures based on a 10 per cent growth in supplies of goods and services was due more to higher demand from outside Europe for traditional Italian products such as leather goods and jewellery.

According to Confindustria, the competitivity squeeze is now showing up on the trade balance in two ways. One is a significant increase in imports of semi-finished products which reflects a growing trend among small and medium-sized producers to base their manufacturing off shore.

This is not so much a matter of them making direct investments overseas but of buying product from low cost centres, increasingly in eastern Europe and Asia.

Clothes are now being made for Italian producers in Hungary and Yugoslavia and jewellery in Hong Kong. Domestic shoe production has been steadily falling while exports have increased – because of offshore manufacturing.

If it continues, the effect will be to systematically reduce the industrial base," Mr Micossi says. He believes that January-June L3,000bn improvement in the trade deficit compared to the same period last year is misleading and due exclusively to an improvement in the terms of trade.

Measured in volumes, imports grew at a faster rate than exports – 5.9 per cent against 5.5 per cent – especially in ferrous metals, chemicals, energy products, engineering products and transport and textiles equipment.

Confronted with what may be a structural problem, what is the government doing ?

According to Confindustria, very little apart from making the situation worse. It is awarding exorbitant pay rises to its own employees – close to 30 per cent over three years – which stimulate equivalent expectations in the private sector, producing annual budgets which are incapable of reaching their targetted deficits and, therefore, of reducing interest rates, and it has loaded industry with an extra L30,000bn of social security obligations over the past three years.

The only consolation for exporting is that the future looked as black ten years ago

In the meantime, there has been no discernible improvement in the quality of telecommunications and transport services which industry claims impose real cost penalties on the export effort.

Confindustria received no significant political support when it sought earlier this year to push the unions towards abandoning the *scala mobile* wage indexation system which covers against around 48 per cent of inflation.

The present government solved the problem by walking away from it, encouraging both sides of industry to sit down to address the future of indexation in June of next year.

The only caveat against excessive pessimism about the future of Italian exporting is that the future looked just as black ten years ago.

Granted that the scope for productivity growth through manpower reductions is now a great deal less, the facility which Italian industry has displayed in the 1980s for quickly applying new technology and producing higher value added products for traditional markets has not vanished.

Flexibility and entrepreneurialism still reigns in the private sector. But it does need the help of a great deal more efficient and effective government than is currently on offer, or really foreseeable for the future.

Sales increase

WHILE ITALIAN exporters of conventional machine-tools have been faced with declining competitivity, the same can not be said for the more sophisticated area of the sector, that of production systems.

"The Italian firms that belong to the latter group are instead likely to soon be third in the world after Japan and Germany," says Mr Gian Carlo Mandelli, president of the Mandelli Group of Piacenza, one of Italy's leading robotics firms with total sales of L160.8bn (up from L142bn in 1988) of which exports represent roughly 50 per cent.

There has been no decline in the group's competitivity on foreign markets over the past year. Thanks to the company's high-level of investment in research and development, says Mr Mandelli, its products are sophisticated enough that sales to high-technology countries such as Germany have actually increased.

Rising labour costs are a problem for many Italian companies but Mandelli has an advantage over many of them. "Given that our systems of flexible automation for the most part have been developed to contain manpower costs, and that we ourselves use our own products, we are less affected by certain problems tied to the cost of labour," says Mr Mandelli.

However, the company has had to face pressure from other costs and has been successfully able to avoid raising prices only by significant structural re-organisation. "Compatibly with the changes in the world inflation rate, our prices have thus remained substantially unaltered," he adds.

According to Mr Mandelli higher prices of raw materials and imported semi-finished products have had little impact on the company. The same goes for the exchange rate, which has affected the company only in the dollar area. One particular problem is that of labour costs regarding white-collar workers and researchers, according to Mr Mandelli. 54-year old chief

"In our sector, in fact, manpower is highly qualified with sizeable gaps between supply and demand. But, I repeat, these are all factors that have been easily absorbed and which have in now way touched our competitive position".

Mandelli increasingly views its clients, domestic and foreign, as part of a single market. "It is therefore difficult, if not impossible, to specify in which foreign markets we have felt the most competitive pressures," he says.

For the Mandelli group, the outlook is definately rosy. "Thanks to our policy of concentration and synergies among our companies, some of which have been newly acquired, we are confident that we will be increasing our share of the world market."

However, a more dynamic industrial policy by the Italian government would be appreciated, particularly with regard to support systems and incentives that are currently non-existent or not easily accessible. If the business support systems that are available in other countries of the EC were to be introduced, Italian firms would find it much easier to penetrate world markets.

Sari Gilbert

High cost to strong lire

THE OVERALL trade balance of the first eight months of 1990 shows that Italy is running a smaller deficit than that registered in the same period of last year. In other words, says Mr Angelo Fornasari, Olivetti group vice-president for administration and finance, despite the unfavourable exchange rate, Italian exports as a whole have grown faster than imports, probably largely because of a slow-down in domestic demand and the consequent necessity to use productive capacity for export.

However, he points out, the situation is different in the field of electronic information systems. Since their products are geared primarily to highly-industrialised countries, exports in this sector, and thus Olivetti exports, are particularly sensitive to exchange rate fluctuations.

This has been particularly true over the past eight months, during which the lira has been revalued by 11 per cent against the US dollar and by 18 per cent against the Japanese yen.

Inflation, he says is higher in Italy than in most other industrialised countries. This means Italian exporters must bear higher local costs and exchange rate effects which, rather than neutralise the differences between inflation rates, move in the same direction.

These external factors have doubtless represented negative elements in the competitive position of Olivetti, which last year registered total sales of 9,031bn lire (up from 8,407bn in 1988) and saw exports account for 63 per cent of total revenue.

On the other hand because of its efforts in increasing research and efficiency, and in lowering costs, the company has been able to maintain a "good commercial performance" abroad.

Cost inflation in Italy has caused some exporters to raise prices. But "where highly competitive products are involved, the pressure of costs cannot be passed on to the prices of highly competitive products."

This is even more true given the fact that countries like the US and Japan, who are benefiting from the favourable exchange rate ratios, can come on to the European market with very competitive price-tags. The greatest competitive pressure for Olivetti has come, in fact, from the US and other highly dollar-sensitive countries, says Mr Fornasari. This is a result of both the devaluation of the dollar and the significant decline in US domestic demand.

To meet this competition, Olivetti must offer increasingly competitive electronic systems and computers and, at the same time, continue its attempts to reduce internal costs through increased efficiency. Like many other Italian companies, Olivetti views the high cost of labour, and its hefty and periodic increases, as a particularly heavy burden.

One of the major contributing factors to this cost is the high level of obligatory social security payments, which amount to about 50 per cent of the total pay packet. "It should also be said," adds Mr Fornasari, "that the 'Italian system', that is, the country's service network, has not yet reached the desired levels of efficiency, a factor which inevitably causes negative effects on company costs.

"The company's competitive position could be improved by greater sensitivity on the part of Italy's political parties and unions. The modernisation of the public administration, says Mr Fornasari, would be extremely beneficial.

In addition, all of Italian industry would benefit from a less rigid concept of labour use and a wage policy sensitive to exporters' needs. However, Olivetti is confident that its increasing commitment to research and its attempts to improve internal efficiency – including through personnel reductions – will enable it in coming years to increase its market shares in Italy and in the major countries of Europe.

Sari Gilbert

Pressure intensifies

OFFICIALS AT the Fiat Mirafiori automobile plant in Turin are convinced that the competitive position of Italian exporters is being penalised by the combined action of inflation and the currency exchange rate.

After all, says Mr Gian Paolo Massa, head of Fiat Auto's strategic co-ordination department, when it comes to inflation there is a structural differential of three to four points with respect to West Germany and of one to two points with respect to the European Community average.

At the same time the lira is firmly anchored to the German mark and therefore the exchange rate does not compensate for the inflation differential.

Because of this, during the course of 1990, Fiat's competitive position continued to worsen. "Domestic costs have been growing at a greater speed than those of our competitors," says Mr Massa. Fiat Auto, which last year registered total sales of 22,888bn lira (over L20,263bn in 1988), is trying to further improve its position in Europe.

"But there is no doubt that on the marketing front there has been a general intensification of competitive pressure through a price war that is still in progress." For this reason, the company, which sells 40 per cent of its cars abroad, has been unwilling to pass its higher costs on to the consumer.

"An out-and-out transfer of the added costs would have led us, in Italy and abroad, to lose competitivity vis-a-vis our competitors, who are subject to less cost pressure," Mr Massa adds.

Fiat attributes the worsening state of its competitive position primarily to domestic factors, in particular to the high labour costs and to the hefty social security contributions that the state collects from business enterprises.

On the external side, the exchange rate, and in particular the over-valuation of the lira, continues to have a negative effect. And there is concern that the rise in price of for oil and oil derivatives could have as yet unquantified consequences for the sensitive automobile sector.

Today, all European car makers consider the European market as a single domestic market, says Mr Massa, and consequently are stepping up sales efforts in an ever-increasing range.

The result is that all European markets are under extreme pressure and it is increasingly difficult to achieve or maintain a position of clear supremacy, such as that which most car makers still hold in their home countries.

What factors could help to improve Fiat's competitive position during the next 12 months? Fiat would be happy to see a devaluation of the lira, which would recover at least a part of the losses of the past two years and thus improve the position of Italian exporters.

But the giant car maker, whose principle objective is that of improving its position on foreign markets, would also like to see an alignment of the Italian system of price formation with the rest of the EC.

The company, which recently put thousands of workers on temporary short-time to reduce its stocks, is trying to cope with the situation by improving internal efficiency and productivity.

But, says Mr Massa, "it is primarily cost pressures on the labour front which constitute a further push towards the loss of competitivity".

Sari Gilbert

TOURISM

Export earner suffers

IS ITALY about to lose its number-one standing as the world's most popular travel destination? After a near-disastrous 1989 and a highly disappointing summer, this is becoming a serious concern, not just for tourist operators but for economic planners long accustomed to relying on the sector as an important export earner and the principle invisibles item in the balance of payments.

An ongoing decline in the tourism account's net "surplus" – the difference between foreign currency earnings from tourism in Italy and foreign exchange expenditures by Italians for travel abroad – could create balance of payments difficulties.

Over the past five years that surplus has declined drastically, from over 12,000bn lire in 1985 to 7,151bn in 1989. The reasons? An increasing number of Italians have been travelling abroad, and spending more when they do so. Competition from other Mediterranean countries has been increasing. And, observers agree, the government has failed repeatedly to come up with either a genuine strategy for expansion or an effective system of marketing.

Recent statistics indicate 1990 will not be a good year

According to Mr Francesco Colucci, president of Confcommercio confederation: "The rationalisation and modernisation of the national tourism system requires a drastic turnabout in the government's attitude".

Total revenues of the Italian tourism industry amount to some L80,000bn a year, the equivalent of over 5 per cent of GDP. But the past three years have seen a sharp drop in foreign exchange earnings.

Recent statistics indicate that 1990 will not be a good year either. According to figures compiled by the Federation of Italian Hoteliers (FAIAT), between January and August the occupancy of Italy's 38,000 hotels increased by only 1.6 per cent compared to the same period of the previous year.

For many tourism operators in Italy the world soccer championships represented a particularly sharp disappointment. hotel bookings in that period increased by only 0.1 per cent.

Figures for the rest of the summer only added to the gloom. In July and August the number of foreign visitors dropped sharply, respectively by 7.8 and 14.2 per cent. West Germans (the biggest single group of Italy-lovers), Belgians and Britons were the principal defectors.

But Americans, Canadians and Japanese were the only groups increasing in number.

The general consensus is that foreign tourists stayed away from Italy during the world cup tournament because of fears of overcrowding, chaos and possible hooliganism.

But why the severe drop in July and August? High prices have served as a deterrent for many, drawn instead to the cheaper accommodation, food and packages in neighbouring Spain and Portugal, Greece, Yugoslavia and, increasingly, Turkey.

And the service in many luxury hotels is often out of sync with prices; about $300 a night for a single room.

Although labour agitation in the transport sector has eased considerably in the past year or so, many veteran travellers remain wary of strikes.

Museum hours rarely seem in tune with tourist schedules. Restaurants are expensive. And pollution has increased greatly in the country's main cities. A recent survey of 16 cities by the British Tourist Authority concluded that a holiday in Rome was more expensive than in any other European capital except for Copenhagen.

Italy's 38,000 hoteliers say government inaction is a major cause of the highly-fragmented, still largely family-run industry's inability to compete (in terms of services and price) with rivals in the "emerging" Mediterranean countries; they cite controlled prices, high labour costs, the heavy value-added tax system, tight credit and insufficient incentives for construction as important government failings.

Another problem is that once stay-at-home Italians have become increasingly eager to travel abroad and the Italian outbound market today is considered one of the fastest growing in Europe.

The strong lira and a weak dollar has intensified the trend. The portion of the population travelling abroad grew by 65 per cent between 1981 and 1985 and is increasing by over 10 per cent a year.

All this has meant a growing cash outflow. In 1989 Italians spent L9,291bn abroad, compared to L4,338bn in 1986.

Sari Gilbert

St Peter's, Rome: tourist revenues have dropped sharply over the past three years while Italians are spending more money travelling abroad

هكذا منذ الأوائل

Italy trails behind the rest of Europe in the privatisation process

The flame flickers dimly

DESPITE THE potential revenues which could make a helpful contribution to cutting Italy's mountain of public debt, despite growing pressures from the European Commission to curb current levels of industrial subsidies and despite the inadequacy of so many public services, the flame of privatisation flickers even more dimly in Italy than it did just two years ago.

The reasons are more varied than is often supposed, but the most important ones derive from the reluctance of the Italian political class to surrender significant controls over sectors which accounts for something like a third of economic activity in Italy. More precisely, the public holding companies, whose political master is the Ministry of State Shareholdings, are vital adjuncts to the powers of political parties.

Informal barriers can be erected through the public administration

They are sources of finance, services and employment for the dominant regime of Christian Democrats, Socialists, Republicans, Social Democrats and Liberals who have populated Italian governments for the past 40 years.

The public sector credit institutions, which control more than 60 per cent of all deposits, provide money for politically inspired public works of dubious or non-existent economic value. They fund private sector projects carrying a suitable political sponsorship and they provide money for a variety of party activities, including the extraordinary number of conferences which erupt in Italy on most days of the week.

The banks will also, it seems, reward friends and punish enemies. Or so Mr Raul Gardini, the president of Ferruzzi, is letting it be known. He claims recent decision to sever all business links with Banca Commerciale Italiana, hitherto regarded as one of the institutions less in thrall to the politicians, was prompted by the conclusion that BCI was taking sides against him in his battle with ENI, the state holding company, for control of their chemicals joint venture, Enimont.

Italy is not the only country in Europe where the parties, through their placemen, reach deep down into the economy. But there may be no other country where the phenomenon is so widespread and so frequently a threat to the public interest. Although some party nominees to senior management positions in the public sector are professional and honest, they are allowed to operate as protected species in a host of sectors where the public monopoly enjoys public protection.

Telecommunications services, air and rail transport and energy supply are three high profile sectors where legal barriers to entry prevent the development of any significant competition from the private sector. There are many others where informal barriers are erected through the public administration or local regulations which achieve the same result. In the absence of market pressure to compete, there is only partial and inadequate public pressure to do so.

The capital injections from the State into the public holding companies — the so-called *fondi di dotazione* — are not supplied at anything approaching market rates. However, budget pressures have significantly reduced the *fondi di dotazione* cover of public companies' investment from 71 per cent in 1983 to 10 per cent last year. This has helped to worsen the ratio between their debt and their share capital to nearly 220 per cent in 1988 compared to 89.9 per cent average for the private sector.

Another explanation for the worsening of financial ratios in the public sector is the government's reluctance to allow price increases for public services. Although the railways are now set for increases of up to 30 per cent over the next year, airlines, telecommunications and motorways have had applications for price increases in the pipeline for years.

If the provision of infrastructural services was not so manifestly inferior to western european averages, the public might be lulled into believing that price stability was an indicator of growing efficiency.

The search for capital has forced the public holdings to seek private funds through the sale of minority shareholdings. Between 1982 and 1988, IRI raised an estimated L12,000bn through stockmarket offerings, but little more than 20 per cent of this derived from full privatisations.

The unwritten political rule which has emerged in the past year or so forbids the cession of majority control of any business of industrial significance or financial size. One reason

In the short term, it now seems highly unlikely policy will change

why the Enimont saga has become a prominent political cause is the general consternation caused in Rome when it was discovered that Mr Gardini's Montedison could win management control on the basis of the same 40 per cent stake that was held by ENI.

It did so by forging an alliance with sufficient third party shareholders to give Montedison control of a bare majority of the stock.

It is still too early to assess the broader significance of the Enimont case. The government's formal position is that it is prepared to allow the full privatisation of the joint venture if Mr Gardini will pay ENI's asking price for its holding. In fact, it may have attached such conditions — including observance of a business plan agreed in 1988 which Mr Gardini believes to have been overtaken by events — as to push the Ferruzzi president into a refusal.

Alternatively, there are those that believe Mr Gardini is trying to provoke such an outcome because he wants to sell his stake to ENI.

However it unravels, the Enimont story has become an appalling advertisement for public-private collaboration in Italy when the sector involves sensitive issues of investment and employment. Opinions vary about the true basis of the conflict, but there seems little doubt that an important factor was Montedison's desire to run faster in restructuring the business and on closing out of date plant than its public partner was ready to contemplate. In short, political resistance to creating unemployment was clashing irreconcilably with more entrepreneurial judgements of the requirements of the market.

In the short term, it now seems highly unlikely that there will be any change of policy on privatisation in Italy. Where once there was some pressure in this direction from the top of IRI and ENI when the two professors, Prodi and Reviglio were in charge, their successors show no signs of wanting to confront their political masters.

The ever worsening budget deficit is the only element which could cause a change of political heart. The minority of leading politicians — Mr Nino Andreatta, the Christian Democrat chairman of the Senate's budget committee, Mr Adolfo Battaglia, the Republican minister for industry and his party leader Mr Giorgio La Malfa — who favour privatisation have been trying to make the most of this, but to little avail.

Mr Guido Carli, the DC treasury minister, the leading advocate of privatisation inside the government, included proposals to sell off some state property in his 1990 budget proposal, but these were stripped out in parliament and made into a separate bill which is now trapped deep in the procedural quagmire.

External pressures may be more helpful. The European Commission could make the maintenance of the state sector more difficult by building a tighter ring fence around public subsidies. Finally, Italy has just equipped itself with an anti-trust law whose provisions on concentration and abuse of dominant market position also apply to public companies.

But its potential effectiveness has been at least halved by a clause which specifically excludes its application to public monopolies required by law to provide services "of general economic interest".

John Wyles

PROFILE: FRANCO PIGA

A symbolic choice

MR FRANCO PIGA's appointment as minister for state shareholdings in July was one of the symbolic choices for which prime minister Giulio Andreotti has become known

After a long career spent heading the cabinets of a number of Christian Democrat ministers, Mr Piga became president in 1984 of the CONSOB, Italy's stock exchange regulatory authority. He is thus an expert on the mechanics of Italian capitalism with an unusual technical grasp of the potential for privatisation in the Italian economy.

But he is also, now, a politician with public views on the issue that cleave closely to the prevailing consensus among the political parties.

He does not acknowledge the existence of any political obstacles to the sale of state assets. Indeed he asserts that "in recent times there seems to me to be a clearer will to proceed more decisively with a privatisation process". He has in mind the cautious floating of stakes in the public banks, the government's own proposals to sell some state property and draft laws presented in parliament by political parties "which are distant from the traditions of the market".

The obstacles to privatisation, says Mr Piga, are more technical. He sees in both the public and private sectors a traditional reluctance among Italian entrepreneurs to expand their shareholding bases. But equally important is the backwardness of the Italian stock market. "This is lacking in intermediation structures, techniques for the making of contracts, and mechanisms for price setting."

His list of inadequacies also includes lack of financial products, thin and therefore unrepresentative trading, insider trading and other manipulations, and lack of proper protections for minority shareholders. He believes key reforms still await the passage of parliamentary legislation.

He also regards investor preferences as a problem, saying that savers clearly prefer to put their money in the huge supply of government notes and bonds issued every year to finance the budget deficit because of the attractive interest rates which are available.

Franco Piga

Mr Piga does, however, want to see the development of a coherent privatisation policy. It should begin, he says, "by clearly identifying in general terms which activities the state has an interest in maintaining its presence."

In the cases of share flotations, it must be clear that the market is able to absorb a heavy supply of shares. In a possible reference to the Enimont disaster, where ENI (public) and Montedison (private) have failed to cohabit in a publicly quoted joint venture, he asserts that assets sales "without clear procedural rules" can lead to conflict.

He says that public companies which have floated minority stakes on the stock exchange are now generally yielding up to or above the market average, having failed to do so until about two years ago. Nevertheless, their Price/Earnings ratios remain below the market average, suggesting that even on equal terms "the market puts a lower value on companies with state shareholdings".

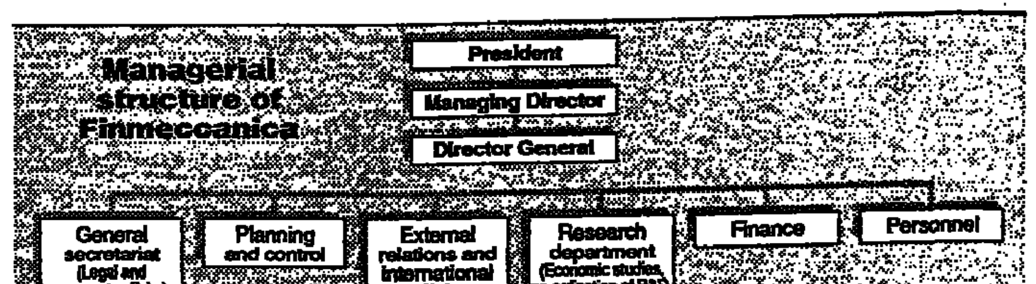
Turning to which sectors might be appropriate for privatisation, Mr Piga gives precedence to property either owned by the military or by communes and to possible joint ventures with the private sector which would control some of the cultural and artistic stock owned by the state.

He also believes that the state should maintain its presence in high technology sectors, services and infrastructures. available in large industrial groups". suggesting the state requires these groups to fulfil its mission in the south of Italy which needs technology to develop telecommunications, roads, water supplies and natural gas distribution.

John Wyles

PROFILE: FINMECCANICA

Simple structure dominates



IRI, ITALY'S GIANT state holding company with annual sales of L66,000bn and hundreds of subsidiary companies, looks at first sight like a management nightmare.

However, since its launch in the early 1930's as a lifeboat for Italian companies and banks which were sunk by the great depression, it has evolved a relatively simple structure based on sub-holdings which act as its management agent for groups of subsidiary companies.

Finmeccanica is one of the most interesting of IRI's holding companies because its relatively small number of 31 main subsidiaries have expanded rapidly on the international scene during the past few years with the aim of establishing the company as the IRI flagship for a range of advanced technologies.

With its headquarters on a hill above the Tiber 20 minutes to the north of Rome city centre, Finmeccanica is the parent company to Aeritalia, Italy's main aerospace manufacturer, Ansaldo, which makes heavy electrical engineering and transport equipment, Selenia and Elsag, Italy's leaders in defence electronics, and ST, the microprocessing manufacturing joint venture between SGB of Italy and Thomson of France.

About 34 per cent of Finmeccanica's 1990 revenues of $8.5bn come from aerospace, 14 per cent from defence electronics, 22 per cent from energy and the environment, 13 per cent from industrial systems and automation, 7 per cent from transportation and 7 per cent from the manufacturing of micro-electronics.

With its staff of 200 and annual turnover in 1990 of $8.5bn, Finmeccanica is organised in such a way as to provide a range of services to its companies and to monitor and control them. In some cases, these centralised services overlap with those that the subsidiaries carry out for themselves but they are administered flexibly and without excessive duplication of the effort involved.

The financial function at the centre involves corporate finance and administering financial cash flows of around $2bn a year.

Finmeccanica also offers customer financing services for aircraft and other large purchases. The chief managerial role in the company belongs to managing director, Mr Fabiano Fabiani. Mr Fabiani is appointed by IRI and whose previous experience includes journalism and a spell as a manager at the RAI national television corporation.

Finmeccanica's responsibility to IRI is to implement a rolling annual corporate plan which is jointly agreed between them. IRI's expectations are set out in an annual letter and, says Finmeccanica, are more "qualitative than quantitative".

Finmeccanica translates the IRI objectives into detailed directions for its companies which respond with individual corporate plans. These, in turn, are consolidated into a Finmeccanica plan which goes back to IRI.

The group plan sets detailed objectives covering market shares for the various businesses, financial ratios and capital requirements. Finmeccanica says financial targets are as rigorous as those of any private company and, in recent years, individual financial performances have been broadly in line with comparable private sector businesses.

"However, we do more in house than the domestic competition, we are more verticalised, so we have lower sales per employee," says the company.

Formally, there are clear rules which determine the freedom of action exercised by Finmeccanica. It is able to buy or sell minority stakes in companies without prior approval but acquisitions and divestments have to be approved by IRI and the Ministry for State Shareholdings.

This process is not always cumbersome or time consuming. In the case of the sale of Alfa Romeo to Fiat at the end of 1986 everything was done in the space of 26 hours during which the Finmeccanica, IRI and Alfa boards all met and formally communicated their decisions to each other in writing. The minister of state shareholdings wrote to the appropriate interministerial committee of ministers which then met in order to give a formal directive to IRI which was then passed on to Finmeccanica.

But Finmeccanica concedes that it has less flexibility than a private company. "If there is a consensus we can move quickly. But we have a public owner and the state does not behave like a private shareholder by just turning up at an annual meeting once a year."

This is something of a masterly understatement given the political interference which complicates the management of public sector companies. It is particularly true when it comes to privatisation and the reshuffling of assets between the three main public groups, IRI, ENI and EFIM.

Alfa Romeo has been the only significant Italian privatisation of recent years and was more a product of a desperate realisation that the company's losses could only be stemmed if it became part of a larger automotive group.

Elsewhere Finmeccanica's development strategies have undoubtedly been disrupted by the difficulty it has had in winning political approval.

At an informal level contacts between managers at Finmeccanica and IRI are intense and frequently daily. Those between Finmeccanica and the management of its subsidiaries are even more intense.

"We do exercise closer control over them than IRI does over us. We go deeply into a company's affairs, are constantly involved in questions of mergers and acquisitions and we do the medium term financial planning for our companies."

Arguing that "we live in dynamic times", Finmeccanica says that the almost daily contacts it has with top managers in subsidiary companies are necessary to guarantee flexibility and responsiveness. "We believe we give them value for money and there are no complaints of excessive interference."

John Wyles

The drive to internationalise

WHEN FINMECCANICA sold Alfa Romeo to Fiat at the end of 1986, the relieved group shed a most unhappy role which had dogged its existence for the previous ten years. Sustaining a not too brilliantly managed car company which was too large to be a niche producer and too small to be a mass producer had been a tremendous burden on the holding company's finances and managerial time. Without Alfa Romeo, however, what was Finmeccanica for?

IRI, then presided over by Professor Romano Prodi, had no problem in providing the solution. Aeritalia, Ansaldo and SGB were core assets which shared common characteristics: they employed advanced technology in markets of a worldwide dimension in which the competitors were few and large and highly competitive.

Finmeccanica's strategic instruction was to strengthen its companies, and Italian national capacities, by pushing them further and further into advanced technologies.

The task would require a steady process of internationalisation to acquire markets and technology, some public sector reshuffling so as to create what the Italians call industrial "poles" under the Finmeccanica umbrella, careful co-ordination to remove overlapping research and development activities and rather a lot of money.

Four years on, Finmeccanica has made considerable progress, although it has hit some deep potholes along the way and its financial performance would not be regarded as acceptable by shareholders of a publicly quoted company.

Consolidated sales have more than doubled in three years to an estimated $8.5bn in 1990 while profits have risen from $60m to $78m in the same period. Five years ago, only 2 per cent of its employees were based outside Italy, now 16 per cent are, and 20 per cent of sales come from foreign subsidiaries.

But problems have hit the strategy from several directions. While it managed to acquire Selenia, shortly to be merged with Aeritalia, from the STET holding company, a parallel requirement to take hold of Italtel, so placing Italian telecommunications alongside advanced electronics, will receive no political blessing for the time being, if ever.

Political opposition has also frustrated the idea of moving Breda Ferroviaria out of EFIM, the smallest state industrial holding, into a merger with Ansaldo's transport activities.

Fiat's recent deal with CGE of France dealt a further blow to hopes of building a railway equipment "pole" in Finmeccanica.

Fiat Ferroviaria, which until the politicians vetoed it seemed likely to be swapped for the Finmeccanica's Alfa Avvio air engine subsidiary, has now been lost to the Turin company's French partner.

Mr Fabiano Fabiani, Finmeccanica's managing director, admits that the whole railway manufacturing strategy is back on the drawing board, although collaboration with Breda on a new high speed train design is proceeding.

The Fiat-CGE deal has not, however, put paid to the possibility of Finmeccanica acquiring Fiat's gas turbine manufacturing activities. Mr Cesare Romiti, Fiat's managing director, said recently that the two sides disagreed over price and it seems that if there is to be a deal, it has to be struck by the end of this month.

If not, Ansaldo will acquire a manufacturing license which will enable it to go into production on its own next year.

Ansaldo has been Finmeccanica's problem company ever since a national referendum knocked the bottom out of its nuclear generating plant equipment business by choosing the non-nuclear option in 1987. Gas turbines are seen as an essential replacement, not least if Ansaldo is to be part of the agreement Italy has made to buy electricity from the Soviet Union to be paid for through the construction of 16 gas turbine power stations.

But the Gulf crisis has only deepened its problems by blocking, perhaps for many years, fulfilment of power station contracts with Iraq worth L1,000bn, about one fifth of its order book.

In other sectors, the sailing has been rather plainer. Having laid out around $2bn over the past five years on some 21 acquisitions, including Ferranti Italia, Inmos in the UK, Bailey Controls and Wabco Westinghouse in the US, Finmeccanica has acquired a range of complementary advanced technologies and is deriving around 40 per cent of its sales from segments in which it is among the three or four largest operators in the world.

The process of international collaboration has been carried forward on a wide front. The microprocessing joint venture between SGB and Thomson of France was an early initiative in 1987 while Aeritalia has developed a large number of production supply agreements with most of the important US and European aerospace manufacturers.

In the meantime, the fusion with Selenia is intended to produce a new force, Alenia, which, says Mr Fabiani, will lead to a rationalisation of research and development activities and a stronger commercial thrust from both its component parts.

The Finmeccanica chief forecasts that in five years time, Alenia's basic strengths will be built on space technology, air traffic control systems, in which Selenia is already a world leader, and commuter aircraft production alongside the ATR 42 passenger aircraft which Aeritalia is manufacturing with Aerospatiale of France.

John Wyles

THE SOUTH

Growth is inhibited

Professor Enrico Wolleb examines problems faced by the Mezzogiorno

IN 1990, 20.5 million inhabitants live in the *Mezzogiorno* (36 per cent of the Italian population), more than in Greece and Portugal together. Their average income per head in 1989 was almost 30 per cent below the European average of 12 per cent. In northern Italy average income was 24 per cent above the European average, 10 per cent higher than in the Federal Republic and 15 per cent higher than in France.

However, the problem of the Mezzogiorno is no longer one of poverty or under-consumption since consumption levels, raised by transfers, are similar to those of an already affluent society. Average consumption per head in the 1980s was 15 per cent to 20 per cent higher than total internal output; highlighting the problem of lack of marketable products, high levels of unemployment and a backward social and political structure. All of these inhibit the growth of a market economy.

In this respect, economic development in Mezzogiorno regions is a long-term issue, with deep-seated political connotations.

Until now, public expenditure has been a panacea which has made the careers of a great many Italian local and national politicians. Their efforts to secure financial transfers to the Mezzogiorno through aid and public expenditure have rarely been accompanied by the *slightest intention of fostering* the needed social and economic transformation.

Large national firms, private and public, have benefitted greatly from this flow of funds, through grants, subsidies or income from the supply of goods or services, with limited beneficial effects on the region. Industrial employment in the Mezzogiorno still amounts to only around 20 per cent of total employment, and has not increased since the mid-1970s. In a more or less closed economy, the Mezzogiorno was an easy captive market for firms located elsewhere in Italy. The question now is whether the single market will perpetuate this role for the Mezzogiorno.

Trade unions have succeeded in winning equal wage levels in southern industry since the 1950s, although industrial productivity was and still is well below the level in the north (20 per cent below in 1990). As a result, labour costs per unit of production in the south are on the whole no lower than those in the north, offering therefore no cost advantage to investors.

More recently, unions have strongly backed large wage increases for the public sector employees, who account for over 20 per cent of total employment in the south. Public administration impedes productivity growth and has an unchallenged record of inefficiency and mismanagement of the resources transferred to the south.

As a result, the *blocco agrario* (agricultural bloc) – large and medium sized landowners, historically considered responsible for the backwardness of the mainly agrarian south in the first part of this century – has been replaced by an even more diffuse core of vested interests, linked to public expenditure and to the maintenance of the status quo – violently against industrialisation and private enterprise – and represented by those who administer public money and the others who are supported by it.

A recent study carried out by ISMERI into the public sector impact on disposable income of families in the south found that the average share of salaries from public administrations and social transfers added up to 38 per cent of their total income as opposed to 28 per cent in the north. Overall public expenditure (of central and local governments, including investment of state-owned corporations) amounted to over 50 per cent of the Mezzogiorno gross domestic product during the 1980s and increased to 60 per cent in 1987.

To complete this gloomy picture, this flow of public money into areas with backward social and political structures and very high unemployment has nourished corruption and criminality to such an extent that Sicily, Campania and Calabria are regarded as being ruled by the Mafia, Camorra and Ndrangheta, rather than by the state.

The contrast is striking between the social deterioration in the south and the indisputable successes of the Italian economy in the postwar period and especially in the 1980s. The highly positive response of companies to the structural problems which they face in the north since the late 1960s, though strongly supported by public aid of various forms, made this region, one of the wealthiest and most dynamic areas of western Europe.

The private sector's strategy of decentralisation and subsequently of expansion did not encompass the Mezzogiorno as a possible location. Public policy towards the Mezzogiorno policy was relegated to the political ghetto of *intervento straordinario* (special intervention) and did not relate to, nor influence, policies in the rest of the country.

The Mezzogiorno has become a service economy while, paradoxically, the level of public services and infrastructure remains low. Social and wage expectations, however, are such as to require the state is expected to provide well paid jobs.

These patent contradictions lead to the conclusion that any explanation of the north-south divide cannot be based solely on economic grounds and that the failure of industrialisation stems, to a large extent, from a lack of political consensus and a lack of determination.

Reform has *to be directed at* involving local administrators, employers and employees in a concerted effort. The flow of public money needs to be limited, justified in terms of objectives and made more transparent *to the taxpayer. Capital* grants and all measures involving administrative discretion should be abolished and automatic tax and social contribution concessions limited solely to the south.

Transfers such as artificial salaries for non-existent jobs, false pensions and financial support for uncompetitive firms and co-operatives or for specific social pressure groups – in agriculture as well as in industry – should be replaced by unemployment benefits paid as a right rather than as a personal favour.

Public firms should not be given unjustifiable priority in awarding public contracts, which results in small private firms being squeezed out.

Resistance to change is, however, enormous. Those politicians who understand the political and administrative nature of the blockage, assert that only a radical change of the electoral system with a parallel change in the ruling parties and their personnel, can ultimately change the forms of political consensus and the methods of public administration.

This brings us to the root of *the problem:* institutional reform is a necessary condition for seriously tackling those aspects of social underdevelopment which impede economic development.

However, there is a widespread suspicion *that* the political debate about reform hides a lack of ability to respond to problems here and now, or is a smokescreen to conceal the real unwillingness to change systems and methods which have assured 45 years of power for the same parties.

Things may, however, improve as a result of growing grass roots pressure for change. Economic and social reforms in the postwar period in Italy have always been preceded by strong social movements, as in the case of divorce, abortion and the creation of the welfare system. At the same time European economic and monetary unification may put an end to the Italian practice of running huge budget deficits putting an external constraint on public expenditure which would restrict the freedom of action of a discredited ruling class in the south *and force the whole* country to think seriously about Italian economic unification as well as European union.

A Sicilian by birth, Professor Wolleb is a consultant at Ismeri Europa, Rome.

Monteverde: development in the south is a long-term issue, with deep-seated political connotations

Growing numbers of banks compete for a slice of the action

Newcomers fill the market

Domestic banks are touting for the same business as foreigners

IF NUMBERS alone were the criterion for customer satisfaction, then Italian industrialists would be smiling. The directory of specialist financial advisers now active in Italy has swollen markedly in recent months.

Whether the growing band of merchant bankers, both Italian and foreign, have yet encountered the *demand expected* remains open. With many of this year's newcomers now having found premises and built up the small two to four man teams which have become typical, the focus is on results.

In the past 18 months alone Warburgs, Rothschilds, Barings and Schroders of the UK have formally established Italian operations. Credit Suisse, First Boston and Union Bank of Switzerland are planning to open Milan offices, *while Merill* Lynch may also step up its Italian investment banking business.

Their names will join those such as Morgan Stanley and the big four Japanese broking houses which are already well-established in Italy. Meanwhile, Deutsche Bank is boosting its corporate finance activities through Banca d'America e d'Italia and a number of big French banks are also becoming more active.

Banexi, the specialist mergers and acquisitions operation owned by Banque Nationale de Paris, set up its new Milan office in earlier this year. And last month Credit Lyonnais's *Climvest investment subsidiary* made its debut in the Italian market by taking a minority stake in a local company.

Some other houses are less conspicuous, but nonetheless active, in Italy. Shunning local offices, Goldman Sachs and Wasserstein Perella have hired Mr Romano Prodi and Mr Franco Reviglio, two heavyweight former state industry heads, as their respective Italian advisers.

There is also no lack of domestic participants. Sanpaolo Finance, Sopaf, Akros and Sviluppo are some of the new Italian merchant banks set up after the country's investment banking business was liberalised in the mid-1980s.

All are touting for much the same business as the foreigners, but what is there for them to do? At the moment, not as *much as they would like.*

Admittedly, not all the banks share the same priorities. Some bigger houses, and especially those which are prominent in the Euromarkets, are still probably concentrating on services for the country's biggest companies – notably in the public sector. Those not planning $100m bond issues, multicurrency swaps or mega-acquisitions need not apply.

Others, including some of the UK merchant banks, Japanese brokers and possibly Morgan Stanley, are also seeking a more active role on the stock exchange. Already active in trading Italian shares at home, *they are now looking for access* to the Milan floor. Leading an initial public offering for an Italian company in the home market would be their crowning ambition.

At present, any such aim is still stymied by the snail's pace of stockmarket reform in Italy. But the central plank of the long-awaited legislation, creating the framework for a new type of multi-purpose broking house, called a Societa di Intermediazione Mobiliare, may pass through parliament before the end of the year.

In the meantime, many merchant banks, irrespective of their size, are concentrating on strictly corporate finance work such as company advice and valuations, while striving to win M&A mandates. With much of Italian industry still fragmented by European standards, and many companies domestically orientated, foreign bankers claim they have an edge in M&A.

Italian companies need to expand abroad, making the contacts and know-how of a foreign bank particularly useful, they claim. And, with many big north European companies facing mature markets and limited growth potential, foreign interest in Italian acquisitions is also growing strongly.

Italian houses do not question the analysis, but they do put a different gloss on the advisory skills required. Thus the domestic operators tend to emphasise the importance of their local know-how in response to the foreigners' claim to have the advantage in cross-border business.

Both groups have had ample opportunity to flex their muscles this year. In July, Barings clinched the L80bn sale of Ceramica Dolomite, the bathroom sanitary ware manufacturer, to Blue Circle, the UK cement group. Some months earlier, Schroders was behind the sale of a 65 per cent stake in Cantieri Riva, the luxury powerboat maker, to Vickers.

Other banks have mined a rich vein in advisory services – notably valuations. Goldman Sachs and Morgan Stanley – along with Wertheim Schroder in New York – advised Eni and Montedison respectively in the Enimont joint venture. They may now stand to double their money by providing the same functions in Enimont's divorce.

Meanwhile, Milan's new merchant bankers are hoping for new business from smaller Italian companies which are seeking additional funds or considering some form of buy-out.

UK houses have been particularly prominent in venture capital. Schroders' Italian Fund, which was the first of its kind, has L100bn at its disposal from a variety of UK, US, Dutch and Japanese insurance companies and pension funds. Meanwhile, Rothschilds has established a $30m Italian equity fund, with financing coming from European institutional investors, which have taken stakes of up to $5m each.

Most recently, Baring Capital Investors, which has set up shop alongside the bank itself, and Investors in Industry (3i), the UK venture capital group, have set up Italian offices to offer their own services.

Demand for buy-outs remains limited, but is also rising. With the first generation of post-Second World War entrepreneurs now reaching retirement or dying out and their heirs not always wanting to continue the business, interest in buy-outs should blossom, the bankers say.

There have already been a number of well-publicised deals. Schroders' sale of Cantieri Riva this year followed the financing of an earlier management buy-out by the bank's Italian Ventures Fund in 1988.

Meanwhile Sanpaolo Finance, the specialist merchant banking subsidiary of Istituto Bancario San Paolo di Torino, now Italy's biggest bank, organised one of the country's biggest leveraged transactions last June.

The L121bn deal involved the sale of Grove Italia, the Italian valve-making subsidiary of Canada's Nova Corporation, to an investment group headed by the bank and including Grove's existing management.

Given the number of banks now offering such services, all must be hoping that many more such entrepreneurs come forward.

Haig Simonian

The country is now leading the way in helping to train Soviet managers, writes **Sari Gilbert**

Schools and seminars teach the market

IN RECENT years Italian industry increasingly has been eyeing the Soviet Union as a potential business partner. As part of this process, two Italian institutes of research and higher learning have sought to get in on the ground level.

Although their strategies appear somewhat different, their goals are similar: to train Soviet and western managers, to increase the exchange of information between West and East, and to foster better business relationships between Soviet and western firms and their executives.

The first to get off the ground in December 1988, was MIRBIS (Moscow International Business School), an Italian-Soviet joint venture founded by the Nomisma Institute for Economic Research in Bologna and the G Plekhanov Soviet Institute of Economy in Moscow.

According to Professor Romano Prodi, a well-known Italian economist on MIRBIS' governing board, the idea behind the school is "to act as an interface between two systems which for many years have confronted one another at a distance".

But, says, Professor Prodi, who until last year was chairman of the giant Italian state holding company, IRI, activities of the school increasingly have been concentrated on the strategic objectives of vocational training for the country's managers and better understanding of the USSR system of administrative responsabilities.

The school which, because of an alternating governing system, has an Italian director and a Soviet deputy, plans to introduce a one-year MBA program for younger post-graduates in the near future and is looking for new western partners.

So far, however, the bulk of its activities have been short courses, of from four to 10 week, for Soviet mid-level managers. And most successful, says Professor Prodi, have been those specialised vocational training courses whose participants "all speak the same language", such as that held last spring for managers of the Pansovietic Department of the Meteorological Instrument industry.

Vast cultural differences have had to be surmounted

Vocational courses given so far, all of which offer a final period of on-the-spot training in Italy, have included seminars for company directors, for financial directors of the Togliatti Autovaz group, for manufacturing heads, for Soviet joint-venture head accountants, for managers of ten Soviet coal mines, for USSR Sberbank executives, and for Ukrainian biomedical managers.

A recently-held course of instruction for savings bank managers was particularly successful. It led the Soviets to decide to set up an accounting school for bankers and Nomisma will be helping to train the new institutions' instructors in Italy and three other western European countries. Since August, 1989, Russian and western lanuage courses have been offered on the school's Moscow premises.

Although the MIRBIS authorities are generally satisfied with progress so far, there have been difficulties. The Soviet joint-venture law is still in flux, making organisation and forecasts on present and future commitments extremely difficult.

Vast cultural differences have had to be surmounted, in training methods, educational goals, curriculum and even day-to-day school administration. Courses have had to be revised. And since few Soviet managers know any foreign languages, teaching is also a problem, with non-Soviet faculty forced to speak through translators.

But this was all to be expected. "What we're doing is planting a seed," says Professor Prodi, "and everyone knows that that is hard work".

At the outset enormous cultural problems also faced the Leningrad International Management Institute (LIMI), a joint venture set up in July 1989 by the prestigious Bocconi University business school of Milan and the University of Leningrad, and which since has acquired additional European and Soviet partners: Holland's NMB Postbank group; ENI, the Italian state energy company; the Milan Exhibitions Authority; SNAM, the Italian state engineering firm; the Soviet Institute for the Economy of the World Socialist System; and Zhylsotsbank, the second largest bank in the USSR.

Non-Soviet teachers are forced to speak through translators

Part of the Bocconi's overall strategy of internationalisation, LIMI's objectives are similar to that of MIRBIS: to develop a broad program of training for Soviet and international managers and businessmen, to carry out joint scientific research, to exchange information, provide consulting services, and to promote development and co-operation between countries.

But, says LIMI's general director, Mr Angelo M Cardani, "our overall strategy is that of qualifying ourselves as a bona fide centre of academic learning". Since its inauguration late last year, LIMI has provided a series of seminars of up to six weeks on marketing, financing and regulation of foreign trade activity.

Targeted at managers from various branches of Soviet industry, mostly from the Leningrad area and the Baltic Republics and, less frequently, at western business operators, the courses held so far include: customs regulations; internal market activity; external market activity; doing business with the Soviet Union; financing external economic activity strategy for entering into the free market area; business English, western accounting principles for Soviet firms; managing cross cultural differences, and doing business in the USSR.

Such seminars, largely technical in nature, are considered an important and useful activity of the business school, forging contacts with the outside business world. However LIMI's long-term objective is more ambitious and more difficult: the creation of a full MBA program, aimed at both westerners and Soviets with an international outlook, that can boast an experienced and prestigious international teaching staff.

LIMI officials say setting up the MBA program will require considerable preparation and time. "In the seminars you are passing on technical information; in an MBA you seek to transmit an entire business weltanshauung, not at all an easy matter when we don't even know how far liberalisation in the USSR will go," says Mr Cardani.

"We need to study the situation," he says. "What set of values will they end up with? And think how hard it is to teach marketing when you don't even know the structure of the market."

EASTERN EUROPE

Italy's entrepreneurs move in swiftly to examine the market

AS ONE of the world's leading, and most nimble-footed, exporting nations, it is no surprise to find Italy's entrepreneurs among the first to examine the new opportunities in eastern Europe and the Soviet Union since last year's political changes.

But the Italians have been present in those parts of the world longer than many realise. Big insurers such as Generali and Riunione Adriatica di Sicurta (RAS) were among the market leaders in countries such as Czechoslovakia and Hungary between the two World Wars.

Despite their subsequent ejection, Mr Umberto Zanni, the RAS chairman, still perceives an undercurrent of goodwill, particularly among the older generation.

More recently, it has been Fiat which has been the standard-bearer for Italian business in eastern Europe. Following a string of deals negotiated since the mid-1960s, the cars group has gained unparalleled access in a number of east European markets.

According to Fiat, more than half the 2m cars made annually in eastern Europe and the Soviet Union derive from its products. Even when the Ladas, Yugos and FSOs concerned are not direct copies of former Fiat models, they betray the Italian group's mechanicals under their skins.

Fiat has recently consolidated its position in the East with a massive deal to revitalise the Soviet Union's auto industry at a new industrial complex at Yelabuga.

Having already won contracts for two of the project's three planned stages of 300,000 cars a year each, it is now poised to make the hat-trick.

Many of the other Italian industrial ventures in eastern Europe and the Soviet Union stem from IRI group companies. Heavy engineering and plant technology producers are most prominent among the divisions of Italy's giant state holding concern to have won big contracts in the East.

But IRI's telecommunications,

Fiat has been the standard-bearer for Italian business in eastern Europe

energy and aviation electronics subsidiaries have also scored. Meanwhile, companies in the ENI energy group played an important role in building pumping stations for the Siberian gas pipeline.

Although most of Italy's other entrepreneurial exploits in eastern Europe have been appreciably smaller, they have often received considerable publicity thanks to their origins in high-profile businesses such as textiles and fashion.

Stefanel, the clothing group based in the Veneto region of north east Italy, first set up shop in Czechoslovakia three years ago. Since then it has expanded into Hungary. Its

Mr Benetton has stressed the importance of local production

Budapest store, which opened last April, is the first of 10 Hungarian outlets which are scheduled to start trading before the end of this year.

Stefanel's bigger rival Benetton is already represented in Hungary, Czechoslovakia, East Germany and Poland. But the biggest boost for Mr Luciano Benetton, the group's chief executive, came earlier this month with the signing of a long-awaited clothing joint venture with the Soviet authorities.

Mr Benetton has stressed that the importance of local production if any foreign clothing group is to make a real impact on local markets in eastern Europe and the Soviet Union. Just having a limited number of stores, selling in either hard or even local currency, "has no future", he says.

With the contracts for his manufacturing joint venture now sealed, Mr Benetton is beaming. But even he has plentiful recollections of the delays and frustrations of doing business behind the former Iron Curtain.

Mr Carlo De Benedetti, the industrialist best known for his chairmanship of the Olivetti computers group, is even more sceptical towards the new markets opening up in eastern Europe and the Soviet Union. While bullish for prospects in the former German Democratic Republic as part of a now-united Germany, he thinks the shift to a market economy will be a long slog in Hungary and Czechoslovakia. Meanwhile, prospects in Poland and the Soviet Union are bleaker still, he argues.

Mr De Benedetti is not averse to playing the pessimist, and is patently not putting any of his own money into eastern Europe at present. But although his current downbeat views put him at odds with many of his counterparts in Italian industry, he has been right in the past.

Haig Simonian

Fata enters the arena of perishable foods

Joint venture under way

THANKS TO the engineering know-how of a little known Turin group, the Soviet Union is beginning to tackle the problems of storing and distributing perishable foods. Ensuring that meat, milk, fruit and vegetables are properly packed and stored, and reach the Soviet housewives in edible condition is the reason for the Sovitalprodmash joint venture in which Fata European Group holds a 27 per cent stake.

When agreement to the project was signed in October 1987, it attracted considerable media interest as the first ever joint venture undertaken by the Soviet government. And Sovitalprodmash claims another record, as the world's largest manufacturer of commercial refrigeration equipment. It is the first of five joint ventures into which Fata has entered with Soviet partners. The most recent, signed a year ago, are Ros-Ital and Sajanal.

Fata has a 10 per cent stake in Ros-Ital, a venture in which it is joined by Borgo Nova, an Italian subsidiary of Britain's T&N group. Now getting underway, the Ros-Ital factory at Rostov will be producing 6m vehicle and motorcycle pistons annually when full production regime is reached in two years time. The venture is unusual, being the first de-verticalisation in the Soviet automobile industry and breaking fresh ground in an attempt to create a highly specialised satellite manufacturing system.

Two other western partners share a 30 per cent stake in Sajanal, the Turin bank Istituto Bancario San Paolo di Torino and the large US group Reynolds Metals. Sajanal's factory, located in central Siberia, will make aluminium foil and packaging for the food and pharmaceutical industries. The factory is expected to become operational in 1992.

Fata is transferring up-to-date technology in turn-key projects that start with preliminary study and design and run through feasibility study, executive design, equipment supply and installation to personnel training and initial plant management and operation.

Food processing is the sector in which the company is now most active. It lays claim to providing pace-setting technologies such as the ultra high temperature process for long life milk preservation.

In addition it has worked extensively in cold and deep freeze storage, in slaughtering and meat preservation and the design and engineering of many other food processing operations.

While Fata's emphasis today is on the food sector, it is not lowering the importance with which it regards other areas of factory automation. Indeed as the Ros-Ital and Sajanal Soviet joint ventures show, non-food sectors are of great significance. For the Sajanal project Fata will be supplying all machinery and plant, wholly Italian-built, to a value of L200bn. The figure at Ros-Ital is L60bn.

Fata sells expertise to diverse industries and in many applications. Materials handling, automated guided vehicles, storage and retrieval systems, welding systems, and technology for dies, aluminium casting and foundries give Fata an engineering breadth.

Although the company's head offices are in Turin, which is also the site of its research and development centre, its food division is located in Parma, an important food processing centre where the large Cibus food fair is held, and there are foreign subsidiaries.

About 85 per cent of last year's L550bn turnover was recorded outside Italy. The biggest market was Europe which – excluding former Eastern Bloc countries, accounted for 42 per cent of the total.

Second in the company's export rankings was the Soviet Union, which alone generated 25 per cent of sales and underlined the importance of a relationship that dates back to 1959. "Fata has always believed in the development of East European countries and particularly the Soviet Union, and Group policy will continue in this direction," says the company.

Doing business with eastern Europe has contributed significantly to turnover, growth of about 60 per cent in the five years since the L350bn was recorded in 1985, and to an order book that presently stands at about L1,000bn. But the company is reticent about its profits.

However, profitability would certainly have been a matter of interest to Fata European Group's bankers, and to merchant banks San Paolo Finance and Cofilp, over the past two years. Company management initiated a L140bn buy-out two years ago, and in September Sweden's Tetra Pak acquired a 10 per cent stake in Fata's equity.

Behind the MBO was the purchase of Babcock International by another British company, FKI, in 1987 and the widely mentioned decision of the new owners to dispose of Fata European Group. The MBO operation completed this year sees the group, whose history dates back to 1936, return to Italian ownership after 18 years in foreign hands. In 1972 it became part of the US Acco corporation, itself subsequently acquired by Bacock in 1976.

Following the Tetra Pak operation, which includes agreement on the joint development of activities in the agri-industry, food and packaging sectors, merchant banks hold 14 per cent of Fata European Group's equity. Reynolds International hold 10 per cent and other industrial partners 20 per cent. With 28 per cent, Fata's management hold the same amount of equity as the Finmeccanica sub-holding of the IRI state holding corporation.

David Lane

SEGAFREDO ZANETTI

Small businesses prepare for future in united Europe

WITH 1993 approaching, many Italian industrialists are convinced that "big is beautiful". But small can also be lovely.

Segafredo Zanetti, the Italian coffee maker and food producer is one of those smaller, more rare Italian companies that over the past several years has been preparing actively – and successfully – for the new European single market.

"There's nothing frightening about 1993," says Mr Massimo Zanetti, chief executive officer and owner of Segafredo, which with total revenues of L334bn turned up 100th on a recent size listing published by the Italian weekly, Mondo Economico.

Segafredo produces some 60 items

Segafredo, which with some 30,000 customers is the number-one coffee supplier to Italian cafés, bars and restaurants, is well positioned for the new Europe.

Today, 60 per cent of its revenues come from foreign sales to Europe, North America, Australia and Taiwan. And in the mid-eighties the company began a series of acquisitions in Europe – Austria, France, Portugal, Spain and, more recently, Germany – that have helped win it a 4 per cent share of the largely conglomerate-dominated European market.

Mr Zanetti, 42, who comes from a family of coffee importers, in 1973 bought Segafredo, a small, local Bologna-based coffee company from its previous owners. Establishing an innovative and active marketing policy stressing "quality and service" (the company's slogan), he gradually established a nationwide sales network.

The next step was diversification. Today Segafredo, which is totally self-financing, produces some 60 products ranging from various roasts and blends of coffee (espresso, home espresso, decaffeinated, filter), and professional espresso machines, to powdered beverages (instant tea and coffee, cocoa, chicory and barley coffee) and sweets such as chocolates, torrone, pudding and panettone cake.

Next came the acquisitions abroad, including Vandour-Danon, the third-largest coffee producer in France. And more recently, Mr Zanetti inaugurated a series of franchised Segafredo "coffee-boutiques" (those opened so far include Rouen, Bordeaux, Nantes, Lille, Paris and Vienna) through which he plans to export "Italy's coffee culture".

With profits last year of over L4bn, high profitability and liquidity, and a moderate level of indebtedness, Mr Zanetti has every reason to feel satisfied.

One problem is the decline in world commodity prices, "which keeps sales values from growing", while other costs at home continue to grow. Fortunately, coffee-production is capital, not labour, intensive, and with only 700 employees in Italy, Mr Zanetti is less affected than other Italian entrepreneurs by rising wage costs.

But he would like to see fur-

Mr Zanetti is confident he can still expand

ther expansion, particularly in the Italian grocery sector. When it comes to family coffee consumption, at present Segafredo, with 6 per cent of the Italian market, is only third, lagging behind Lavazza, the large Italian independent Italian coffee-maker, and Splendid Coffee, a subsidiary of Procter and Gamble.

"It won't be easy," he admits. Coffee consumption is generally highly habitual and thus static. This means that generally there are only two ways to increase one's market share: through massive advertising investments or partnerships with (or acquisitions of) small, local companies. "We are involved in various negotiations," says Mr Zanetti.

What about the challenge from the conglomerates in an area – food and food processing – which in recent years has shown a strong tendency towards concentration? "In general the big shifts have already taken place," says Mr Zanetti.

Massimo Zanetti

Mr Zanetti appears confident that he can continue expansion, both inside Italy and abroad, without losing his independence. But he does not rule out the possibility of taking his company public. Sometime in the not so near future the company might even be listed on the Milan stock exchange, so that minority participations could be sold.

"But," he says, hinting at the future possibility of a major acquisition, "it would have to be something really special."

Sari Gilbert

ENIMONT

Bold hopes fade fast

IRRESPECTIVE OF who owns Enimont, the Italian chemicals joint venture which has left a trail of vitriol between Montedison and Eni, its private and public-sector co-owners, all are agreed on one theme. The group urgently needs to restructure its activities if it is ever to realise the bold hopes set out in its founding business plan.

Enimont's woes fall into two categories; short-term problems dictated by the current downturn in chemicals demand and overcapacity; and long-term structural ills based on a lopsided business mix.

The group's short-term difficulties have been exacerbated by the rise in oil prices following the Gulf crisis, which has in turn triggered a run on certain key primary materials like virgin naptha. In early August, Mr Sergio Cragnotti, Enimont's chief executive, warned that the invasion of Kuwait was adding L60-70bn a month in raw material costs.

Earnings for the first half of this year testified to the depth of its current troubles. Net profits tumbled to L151bn from L526bn in the corresponding period last year, while sales fell by 12 per cent to L7,194bn. Some 2,000 temporary lay-offs have already been announced; more may be to come.

In the longer term, Enimont, which is the world's ninth biggest chemicals group, needs to follow the example of some of its larger rivals and revise its product portfolio. The company needs to reduce its vulnerability to falling demand and increasing competition in some commodity chemicals by developing higher-value non-commodity parts of the business like drugs, agrochemicals, and engineering plastics.

On a European basis, Enimont is currently the third biggest producer of fertilisers, one of the sectors worst hit by overcapacity and low prices; the biggest producer of acrylic fibres; and the second largest maker of bulk plastics.

Moreover, on a world basis, it is one of the largest manufacturers of ethylene, the bulk chemical used as the main component for many other types of synthetic materials. While Enimont must lower its exposure in these areas, it must also develop its activities in higher-margin activities, such as certain engineering plastics, PET plastics for packaging, and fine chemicals, where it is already present.

Enimont must also become much more international. The

Short-term difficulties have been exacerbated by rising oil prices

company currently derives around 55 per cent of its sales from its home market, against around 25 per cent for the big three German chemicals groups and Imperial Chemical Industries. And it is particularly weak in the far east, which is expected to account for much of the growth in chemicals demand in the 1990s.

Moreover, while other manufacturers have shifted products, as well as sales, abroad, Enimont still makes about 80 per cent of its output in Italy, sometimes using distinctly antiquated plants.

But it is too early to write the company off. Mr Cragnotti — admittedly partial — has talked of a concern that could still be the envy of the world. Mr Giorgio Porta, the Ferruzzi executive who has just been elected chairman of the European Petrochemicals Federation, thinks that, with the right mix of asset sales, swaps and joint ventures, it could become much more competitive.

Some steps have already been taken. So far this year, Enimont has sold its majority stake in Auschem, a subsidiary making chemicals for the textiles and other industries, and Sclavo, its pharmaceuticals operation.

Further disposals may follow. The Bellco subsidiary may be up for sale, along with some of Enimont's refining capacity. And it has confirmed discussions are taking place with Fertilizantes Espanoles of Spain on possible co-operation in fertilisers.

Attempts at acquisitions have proved less successful. Enimont's bid to buy the Polysar rubber division of Canada's Nova Corporation, foreshadowed publicly by Mr Cragnotti in May, proved disastrously embarrassing just days later when the company was pipped by Bayer at the post. However, such deals are just part of what is required for Enimont to begin realising the potential which its minority shareholders, who hold the 20 per cent of its equity listed on the market, were led to expect when the company was launched. So far, they have been bitterly disappointed.

Haig Simonian

SHIPBUILDING

Orders strong for the present

THERE WAS a large measure of pride at Italy's state-owned shipbuilder Fincantieri when the luxury cruise liner Crown Princess was delivered to Britain's P&O group at Trieste's Stazione Marittima at the end of June. The gleaming white vessel with its sleek, futuristic lines represents a triumph for Italian shipbuilding.

The Crown Princess project started six years ago, although hull number 5839 was not laid down at Fincantieri's Monfalcone yard near Trieste until June 1988. Building the 70,000-gross-tonnes liner, which with high technological sophistication and comfort accommodates 1,700 passengers and is manned by a crew of nearly 700, was worth L500bn to the Italian shipbuilder. And a sister ship, the Regal Princess which will be delivered in spring next year, is worth a similar amount.

With the two P&O vessels and an order book that includes two cruise liners for the Italian line Costa Crociere

Few expect today's high level of building activity to continue

and three for Carnival Cruises of the USA, Fincantieri boasts the world's biggest portfolio in the sector. The company says that this healthy situation has historical basis in the reputation that Italian yards have enjoyed for designing and building fast, elegant passenger liners since the beginning of the century.

However, much has happened since the heyday of Italian shipbuilding and few expect today's high level of orders and building activity to continue. Nevertheless Fincantieri now has an order book totalling L8,000bn which is almost four times the value at the end of 1988.

Representing about one half of shipbuilding activity in Italy, Fincantieri is a thermometer for the industry as a whole. Indeed, other yards, in the private sector, are also benefiting from improved market conditions. In reporting on 1989, the association of Italian shipbuilders, Assonave, was able to be more bullish than for many years.

"Production of just over 300,000 gross tonnes in 1989 at last allowed a generalised, satisfactory utilisation of productive capacity," wrote Assonave's chairman Mr Enrico Bocchini. He noted a good flow of orders in addition to the 590,000 gross tonnes that were received at the end of 1988 after two years of famine.

"The upturn in world shipping has at last been reflected in the shipbuilding sector," said Mr Bocchini. But Italian shipyards also owe a debt to the approval in June last year of Law 234 for assisting shipping and shipbuilding.

The effects of the legislation have not, however, been wholly positive. Mr Bocchini says that there have been problems in its application, particularly in determining the capacity and the production of each yard that should be recognised for assistance.

Moreover, Law 234 attracted critical attention from Brussels and the initiation of action against Italy by the EC Commission, concerned about violation of competition policy. Mr Bocchini stressed that the issue must be wrapped up urgently so that Law 234 can be implemented. "It will only then be possible to take practical steps in disbursing financial contributions, particularly those regarding new construction orders."

Meanwhile, Italian shipbuilders have been viewing Law 234 as an opportunity to compensate for recent bleak years. Mr Bocchini noted that severe self-criticism is called for. "Law 234 has generated expectations in not a few members that seem wholly incompatible with existing production capacity and in contradiction with the spirit of the law itself."

Assonave's chairman emphasises that national plans for the sector, EC decisions and indications in Law 234 not only seek to avoid capacity increases but also aim at further rationalisation. He underlines the need for the government to provide the financial cover necessary for the early retirement of about 5,000 workers over 50.

Overall, Italian shipbuilding presents a contrasting picture. The sector is exploiting the current positive situation, but few would bet on finding fair conditions over the horizon. In the sector none provides a better example of light and shade than Fincantieri.

While the state corporation is sailing steadily ahead with building merchant ships, its military division is navigating in a full-blown financial and legal storm. The $3,600m Iraqi order signed in February 1980 has widened the hole in Fincantieri's accounts.

Only two corvettes and a support vessel have been delivered. But the corvettes have been blocked for years in La Spezia and the support vessel travelled no further than Alexandria. With a further four corvettes and four frigates built but not delivered, and also lying at La Spezia, and with half of the contract price received, the company risks a lawsuit. Fincantieri certainly needs its Crown and Regal Princesses to compensate for the *Abdulla Ben Abi Sara* and the rest of the Iraqi fleet.

GEPI

Industrial lifeboat is seen as a graveyard

Gestioni e Partecipazioni Industriali (GEPI) will celebrate its twentieth birthday next year. Since its establishment by state-owned investment bank IMI, which has 50 per cent of share capital, and state holding corporations IRI, ENI and EFIM which have equal stakes in the remaining equity, GEPI has coined a new word.

GEPI-isation means the state hospitalisation of terminally sick manufacturing companies. Originally conceived as Italy's industrial lifeboat, on call to prevent companies from sinking and for re-launching them after rescue, Rome-based GEPI came to be considered more like a corporate morgue.

It was conceived when Italy's post-war economic miracle was starting to flag, and the first shadows of crisis were appearing. "Its support aimed at job protection, corporate turnround and the return of companies to private ownership and the market," says Mr Benedetto De Cesaris, GEPI's chairman.

Mr De Cesaris admits that many companies have reached GEPI in conditions that are beyond resuscitation. Politics has often been dominant among the factors determining GEPI's intervention, with powerful politicians rather than industrial logic calling the shots.

Nevertheless, Mr De Cesaris can point to some successes, a total of 205 companies having been turned round and returned to private ownership since GEPI's inception. Last year it was able to transfer 21 companies from its books to other owners.

Gestioni e Partecipazioni Industriali in figures

Unit: billion lire	1986	1987	1988	1989
Finance supplied to companies	453	525	410	454
State Funding	210	210	220	210
Self financing	300	320	245	272
Deficit from investments	232	215	202	203
GEPI's net loss	193	187	185	185

Source: GEPI accounts

Though GEPI's sphere of action was initially nationwide, in 1977 parliament decided that new interventions should be limited to the south. "GEPI has progressively disengaged from investments in the north," says Mr De Cesaris.

However, he admits that there have been occasions since 1977 when the corporation has been called to aid northern companies.

Mr De Cesaris notes that operating Italy's Mezzogiorno presents problems. "Often conditions do not exist for turnround. Massive innovation and a wholly new business approach are required. Workforces are too large, but alternative employment is not available. Local social forces and heavy political pressure aim at job protection," he says.

GEPI has attempted to create a framework for resolving its difficulties by placing its investments in two categories. Companies in the first have

Many companies have reached GEPI in conditions beyond help

real turnround potential while those in the second are terminal cases where the objective is labour re-use. In the second case, management of *cassa integrazione guadagni*, the labour lay-off fund, is the main role.

At the end of last year there were 23,000 workers in 65 companies benefitting from the fund, against 11,000 employed in 99 manufacturing and 17 service companies where turnround is expected. About 80 per cent of GEPI's total payroll is in the *Mezzogiorno*.

"We have recently prepared a new strategy, in which we emphasise that industrial considerations are paramount. GEPI should not have a function in implementing labour policy," says Mr De Cesaris. Key points of the strategy include:

- respect for the principle of proper use of funds
- continuing emphasis on small and medium sized companies
- avoidance of no-hopers
- creation of employment opportunities
- greater emphasis on active role rather responsive.

Noting that southern productivity is lower than elsewhere, Mr De Cesaris says that labour contracts should reflect this. He considers that the difficulties of large manufacturing companies in the Mezzogiorno underline the need for GEPI to encourage small service firms.

"The corporation has considerable experience of working in partnership. Of our 99 operational manufacturing firms at the end of last year, 53 were investments in partnership with third parties," adds Mr De Cesaris. He believes that this gives GEPI, which uses outside consultants extensively in temporary management positions in companies where it intervenes, real awareness of the private sector.

The large number of privatisations undertaken has also provided contact. In contrast to IRI, ENI and EFIM, GEPI has not encountered political difficulties in privatisation operations.

Privatisation operations have generated part of the funds needed for financing interventions, which last year absorbed L454bn. State funding of L210bn in 1989 helped cover GEPI's net loss of L185bn that arose from its own operating expenses of L40bn and an aggregate deficit of L203bn among its investments. Running a lifeboat operation does not come cheaply.

David Lane

SETTING UP IN BUSINESS

The hurdles remain

LIFE CAN be tough for the new or growing company in Italy. Despite a plethora of specialist advisers and banks which have sprung up in recent years, budding entrepreneurs still complain of a system that often seems more inclined to smother rather than spearhead the nascent business.

Some of the problems, such as poor public services or the inordinate amounts of red tape that have to be surmounted in setting up a company, are peculiar to Italy. Others, like limited access to venture capital and unsympathetic bankers, are familiar obstacles from elsewhere in Europe too. But, taken together, the combination can create an atmosphere which makes starting a new business unappealing in Italy.

Most entrepreneurs need little prompting to launch into a tirade against Italy's public-sector inefficiencies. An atrocious postal service, unreliable rail and air links and a telephone system that is only now beginning to benefit from the fruits of long-overdue investment are just some of their bugbears.

Mr Mario Possati, the chairman of Marposs, a big family-owned business which makes sophisticated measuring equipment for machine tools, is one entrepreneur whose business has grown from tiny roots in the late 1950s to a world-class concern.

Based near Bologna, Marposs exported almost 90 per cent of its L105bn parent company sales last year and is a world leader in its field. However, Mr Possati needs little prompting to recount some of the problems he faced, few of which have changed today, he thinks.

Banks were unsympathetic for a start. "There was an absolute lack of a banking mentality which understood the needs of a company which was growing. The banks here were exactly the opposite of what they should have been," he said.

Although there have been improvements on the financial side, many of the public-sector barriers, notably regarding infrastructure, remain. "The plane which doesn't leave, the train which is late are all types of costs for an Italian business," says Mr Possati.

But whatever the problems with Italy's public-sector companies and services, it is bureaucratic barriers which are the biggest obstacle to a budding Italian entrepreneur today. Just setting up a company can be an endurance test. Whereas a UK limited company can be created in a matter of hours, the process is far more complicated in Italy.

It takes around two months for the local tribunal to give the new enterprise its all-important omologazione – registration. Without it, the prospective entrepreneur is powerless. Bank accounts cannot be opened; assets cannot be bought; even stationery cannot be printed, as it has to carry the new company's registration number.

Bureaucratic barriers are the biggest obstacle to the entrepreneur

Detailed information has to be submitted regarding a new company's directors and owners as part of the registration process, all of which has to be authenticated by a public notary. Rather than the more complex form of a Societa per Azioni (SpA), akin to a public limited company in the UK, most small businesses in Italy opt for the status of a Societa a responsabilita limitata (Srl) – roughly corresponding to a limited company in the UK.

SpAs require a minimum share capital of L200m, while Srls need only L20m. Moreover, any Srl with less than L100m in share capital does not need to appoint a board of statutory auditors, meaning that it faces much less onerous reporting requirements.

Foreigners in particular can be surprised by some of the other practical problems that can impede getting a new company off the ground. Manufacturers tend only to work to order rather than holding large stocks, meaning that office furniture usually takes around six weeks to deliver. And telephone installations can be a nightmare, with a high chance of delays and confusions. Even fax and data connections, although much more commonplace now, can require considerable patience.

Local chambers of commerce can provide some assistance, while the large number of industry federations and trade association can also be sources of market-related advice.

Access to public-sector financial help is more tricky. State grants, involving a mixture of tax concession and financial incentives, tend to be limited to the Mezzogiorno region of southern Italy. Although certain types of financial assistance are also available in the north, they are restricted to delineated areas of economic difficulty, such as the mountain regions of Lombardy and the Alto Adige.

Even when the new company is set up, the bureaucracy does not end there. For all its reputation as a free-wheeling economy where individualists thrive, Italian executives have to cut their way through a maze of red tape. Many of the requirements stem from successive attempts to reduce tax evasion.

But the result can sometimes be to create a web of highly complex paperwork. "Italian accounting is incredibly detailed, particularly when it comes to dealing with the expenses that can be set against tax," says Ms Wendy Rimmington, the head of Penguin Italia, the Italian subsidiary of the UK publishing group.

For example, special types of forms have to be completed when it comes to buying petrol for company cars, or entertaining at the company's expense. An office even has to keep a formal register of where its employees are at any given time. It is no surprise that many big companies produce their own "nota spese" – the in-house "bible" on how to deal with expense claims, which they distribute to all employees likely to be affected.

Ms Rimmington, who recalls having to set aside a whole day to try and master the regulations with the office accountants, reckons the system has at least one advantage. "From the company's point of view, it's wonderful, as it means expenses claims are foolproof."

Haig Simonian

Italy's first anti-trust law will loosen grip of public and private industrial power

Curbing cartels

"THIS IS my child and I am very proud of it," says Mr Roberto Cassola, the Italian senator who has devoted much of the last two years of his life to supervising the parliament's tortuous delivery of Italy's first ever anti-trust law.

A 49-year-old Roman, Mr Cassola is an unusual phenomenon in Italy. He is a modern, reformist Socialist, but there are others claiming similar credentials. What sets him apart, however, is a readiness to work hard at the grindingly difficult process of legislating, rather than posturing in favour of change.

As chairman of the Senate's industry committee, he began the process of trying to nudge Italy towards a competition law by launching investigative hearings on the subject more than three years ago.

The results encouraged the government of the day to present its own draft law just under a year later which Mr Cassola's committee then considered alongside a private initiative by his fellow senator, Mr Guido Rossi of the Independent Left.

The final version which cleared the parliament at the end of September had been substantially changed from the original drafts, not least because the new law also contains strict limitations on the freedom of private industrial companies to acquire stakes in credit institutions.

There is no clear logical reason why *such inhibitions* should appear in an anti-trust law, but most politicians and the Bank of Italy wanted it that way. "The importance of this law is that it is a vital step towards making Italian capitalism more transparent," says Mr Cassola.

This was an almost heretical objective three years ago when only a small minority of politicians were ready to put their heads above the parapet and argue that the public interest needed defending against both public and private industrial power in Italy.

The former is in the grip of the main political parties for whom correct behaviour in the market place is of secondary importance to their control of patronage and finance through public sector companies. The latter is still dominated by that small oligarchy of entrepreneurial *padrone* whose wheeling and dealing is frequently inspired, financed and legitimised by Mediobanca, the Milanese merchant bank whose strongest gesture in the direction of transparency is the small brass name plate on its front door.

Italy is thus left with an industrial economy dominated by public and private conglomerates. They frequently enjoy cosy relationships with banks, have a taste for controlling insurance companies and ownership of newspapers and magazines.

It is unlikely that the new anti-trust law which should come into force around the turn of the year, will quickly alter this profile of industrial power in Italy. But it does offer consumers and smaller businesses the opportunity to seek redress against abuses of dominant market positions and some protection to society as a whole against the corporate tendency to seek easy gain through acquisitions which stifle competition.

Industry itself eventually dropped its early opposition to regulatory legislation once it was persuaded that certain safeguards were being created against political, and therefore discriminatory, manipulation of the law. The main bulwark against this danger in Italy is *to be an independent Guarantee* Authority whose members will be nominated by the presidents of the two house of parliament, rather than by the government.

No reliable estimates are available of how many mergers and takeovers the authority may be required to examine. But the thresholds set by the law – L500bn domestic sales resulting from a merger and any takeover of a company with a turnover of more than L50bn – suggests that the volume could be high.

Industry's resigned acceptance of the law was also encouraged by the realisation that without an anti-trust law of its own, the Italian position in the European Community would be foolish rather than just anomalous.

The EC has fully armed itself with new procedures and regulations for enforcing competition in the single market, and Italy clearly had a responsibility to provide supporting regulation in its own national territory.

According to Mr Cassola, it is also capable of flexibility and dynamism. "Since we are facing a future of enormous changes, we have not sought to impose tight restrictions on the application of the law. Rather, we have created an authoritative structure with discretionary powers."

John Wyles

The scope of the new law

The law applies to both state-owned and private companies and seeks to outlaw *both agreements which restrict* free competition and abuses of dominant position. It also subjects all mergers above a certain threshold to scrutiny for their impact on competition.

● Restrictive agreements. All agreements which consistently aim at "restricting, impeding or falsifying" competition in the domestic market are forbidden. *Such agreements may* involve price fixing, production limits, investment or technological developments as well as market sharing or supply sharing, and discriminatory treatment of third parties providing equivalent services.

The Guarantee Authority can allow derogations to these restrictions for a limited period if they improve supplies to the market or "substantial benefits" to consumers.

● Abuse of dominant position. It is forbidden to impose directly or indirectly purchase and sale prices which are "unjustly burdensome" to damage consumers by limiting production, market access or technological developments, and to discriminate against third parties supplying equivalent services.

● Concentrations. Concentration takes place when two or more companies merge, when one or more subjects in control of one company acquire control of another by one means or another, and also through the establishment of a joint venture. Co-operation between independent companies is not regarded *as concentration nor* is temporary acquisition of control by credit institutions for a period of less than 24 months.

A concentration is forbidden if it leads to or reinforces a dominant position in the national market so as to reduce or eliminate competition.

Control is defined as the ability to have "a determining influence" on a company's activities through ownership of property or capital, or on the composition of its decision-making bodies.

● The Guarantee Authority. The authority "will work with full autonomy and independence of judgement" and will be a collegial body made up of a president and four other members. They will be nominated by the presidents of the two houses of parliament.

The president is to be a person of "known independence" who has previously occupied institutional positions of "great responsibility and importance".

His four colleagues will be also of known independence and chosen from magistrates sitting on the Council of State, from the Court of Accounts and the Court of Cassation, university professors of economy and law and people of recognised professionalism from an economic background.

The members will be appointed for seven years and cannot be reappointed.

● *Notifying Concentrations.* All concentrations which create a company with national sales exceeding L500bn or a takeover of a company with national sales above L50bn must be notified to the authority. These values will be raised annually in line with the price deflator of gross domestic product.

If the authority judges that the concentration may be in br[each] of the law, it must open an investigation within 30 days. It must then issue its judgement within 45 days which can be extended for another 30 days if companies have not supplied all information at their disposal.

The authority can order a concentration to be suspended during the period of its investigation. If it concludes that a concentration is anti-competitive, it can forbid its completion.

If this order is ignored, sanctions can amount to between one and 10 per cent of the sales of the company which is the object of the concentration. Failure to observe the notification requirements could trigger sanctions of up to 1 per cent of the offending company's previous year's sales.

● Government powers on concentration issues. The government will determine "in a general way" the criteria by which the authority can in an exceptional situation authorise a concentration which breaches the law. In such a circumstance considerations of the national economic interest in the context of European integration should apply.

● Investment in credit institutions. All investments leading to a capital stake above 5 per cent or leading to control of the institution must be authorised by the Bank of Italy.

Each additional holding above 5 per cent must also be authorised by the central bank subject to a maximum permitted holding of 15 per cent by any entity which is not also a credit institution. One or more investors participating in a voting syndicate shall be judged to be in control if they own more than a quarter of the ordinary shares.

Existing stakes of more than 1 per cent must be notified to the Bank of Italy within 60 days of the law coming into force. Stakes above 5 per cent, or those which yield a position of control may be considered authorised if the central bank has not ruled otherwise within 180 days of notification.

Existing holdings by public bodies may consider themselves authorised. The inter-ministerial committee for credit and savings will determine the criteria for permitting, suspending or revoking the central bank's authorisations.

John Wyles